COMMON-SENSE ECONOMICS

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A PRACTICAL ELEMENTARY BOOK
FOR SCHOOLS AND GENERAL READERS

BY L. LE MESURIER

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THREE THINGS NEEDFUL—

CONFIDENCE. WORK. FELLOWSHIP.

"If a man is really and truly ignorant that confidence is the best capital for commercial enterprise, he must be ignorant of everything!" *Saying of Demosthenes.*

ZIMMERN, *The Greek Commonwealth.*

"Society cannot get on without a basis of unpleasant and monotonous labour."

IBID.

"Because economic life was stable, craftsmen could feel themselves to be comrades, and because they were comrades they could help to keep life stable."

IBID.

AUTHOR'S PREFACE

An elementary book of this kind obviously makes no claim to originality in its matter. Such a claim would indeed be absurd. But the rapidly growing sense of the Community that the subject is one of vital importance is producing an ever-increasing demand for books suited to all ages and all classes. They are urgently wanted for training responsible citizens in a Democratic State. The intelligent boy or girl at a public or other secondary school, the home student, and the man and woman in the street—all consciously or subconsciously feel the need. And the schoolmaster or lecturer, often over-worked and with little spare time, clamours for simple practical help in meeting the need. This is the justification for making yet another attempt to fill a gap and supply a want.

In this book I have aimed at three things only. First, to be really *intelligible*. Second, to be *readable*, and reasonably *brief*. Third, to put some of the generally accepted facts of Social Economics before students in such a way as to lead them to the study of modern social problems in a *spirit of sympathy*.

Many valuable books are not quite easy enough for those who know little or nothing of the subject to start with. Many more are not " readable " in the popular, non-expert sense, and certainly not brief. And yet others are written with some definite bias which may tend to dry up sympathy with different points of view.

" Labor omnia vincit " we are fond of quoting as a cure for social evils, and sometimes we quote it in reference to the work of others rather than our own. It is everlastingly true that work conquers everything,

and that without hard work there is no salvation for the individual or the society. But one does not get the best work out of any one or any section without good-will, and the key to good-will is mutual understanding. Ignorance is the parent of prejudice and suspicion, and sometimes of cruelty. Therefore we want, not to force our own solutions on others, but to make sure that all citizens, and especially young citizens, should study the facts themselves with an open mind.

My debts to many modern authors will be evident, and the names of those from whom I have quoted are mentioned in the list of books given on p. xi. I have borrowed freely and am grateful for all I owe to them, and perhaps to others from whom I may have drawn unconsciously. I would thank all whom I "sat under," at the London School of Economics, and especially Miss Christie, Senior Tutor of the Ratan Tata Department of Social Science.

But there is another debt which I wish to acknowledge with the deepest gratitude, and that is to Professor Urwick for other help besides that of his published work. If there is anything different in the attitude of this book from that of others, it is only the plain truth to say that it is his, in so far as it is of value, and not mine, due to my vivid recollection of his lectures and seminars and private teaching. He taught so that it was impossible for the dullest not to feel that Economics was not a dry-bones science of figures and formulas, but a subject of passionate human interest.

My warm thanks are also due for very valuable criticisms and suggestions to Mr. Henry Clay, Mr. Alexander Paterson, and again to Professor Urwick, all of whom kindly read this volume in MS., and to Sir Lynden Macassey, who generously wrote the Introduction.

L. LE MESURIER.

INTRODUCTION

By Sir Lynden Macassey, LL.D., D.Sc.

This is a book for which there is a definite need. Many books have been published on Economics, some scientific without being popular, others popular without being scientific, but this one, without pretension, combines these two essential qualities. It is a clear and logical statement in common language of economic principles and facts.

The general public may be pardoned if it has not devoted to Economics the attention which that subject deserves. Many Economic treatises are written in technical phraseology which seems to the uninitiated to bear no relation to the facts of everyday life as they see them. Other books which purport to be disinterested statements prove on investigation to be camouflaged propaganda. The author of this book has no partisan axe to grind.

We live in times when the air is charged with numerous schemes for the reorganisation of society and of industry; in many respects reforms undoubtedly are necessary; traditional types of organisation must be adjusted to modern requirements, and new views of life; but as a governing condition of reconstruction the would-be reformer must realise the limits imposed by economic laws. One of the disquieting circumstances of the day is the number of proposals for social reform which either are founded upon ignorance of those laws or display a determined intention to flout them.

When Parliament has shown itself disposed at

times to assume that in national affairs it can ride triumphant over economic laws, there is some excuse for sections of the public to think that in their private concerns these laws do not apply to-day with the same rigour as they did before the war. Many official schemes for the building up of a new world seem also to assume that there was some assured fund of untold wealth from which the country could draw without stint an unceasing supply of money and credit. In industry, it is often assumed that although production remains the same or diminishes, there is always, notwithstanding the devastation of the war, a sufficiency of wealth to improve conditions of employment and increase wages and profits far beyond pre-existing standards. These are dangerous doctrines.

Had economic facts and principles been more present to the minds of politicians, employers, and trade unions, and even the public during the last few years, the industrial and commercial position of this country to-day would be immeasurably better than it is, and social schemes, irrevocably committed to failure from their very inception, would not have been launched under political pressure in violation of economic principles.

To inculcate a sound knowledge of economic laws, and of the Nemesis which follows on their breach, we must start in our schools. Outside the universities there is as yet no systematic attempt at economic education; few, if any, of the public schools have the subject included as part of the curriculum. I know, however, of some brilliant exceptions, largely due to the enthusiasm of individual masters who manage in the History Course to introduce illicitly some teaching of Economics. Several public school masters have written to me from time to time asking for the name of a practical text-book suitable for school use, one

that involved as little as possible of recondite scientific phraseology—"technical jargon" one public school master termed it—and stated in simple language with homely illustrations and with some human interest the elements of the subject. While there are many excellent books adapted to the needs of university students, I really did not know until the appearance of this book one really suitable for general use in our great public schools.

That is not altogether surprising; a scientific treatise on Economics hardly reflects the affairs of everyday life as they appear to the man or boy in the street. Not that such books are deficient in their scientific presentation of the subject; it is that the subject when stripped of its work-a-day appearance and laid bare in its scientific outlines is no longer recognisable by the ordinary person.

I had many illustrations of this during the war. It was my duty between 1914 and 1919 to deal on behalf of the Government with labour problems in various capacities: amongst others as Chairman of the Government Commission for Dilution of Labour on the Clyde; Chairman of the National Tribunal on Women's Wages, and as Director of Shipyard Labour. In connection with the negotiation of agreements with trade unions for the suspension of customs restricting output, the introduction of means for increasing production, and the settlement of disputes, I had to meet Trade Union Executives, District and Branch Committees, and mass meetings of men on well over 3,000 occasions. Before anything could ever be done, there was invariably a long conference on some particular economic controversy which varied according to the locality. There was a series of quite definite economic fallacies by which men's minds were obsessed, and by reason of which it was impossible to make progress

until you had argued the matter out. In debate I found the cold theory and phraseology of the university lecture-room quite useless; the economist and the worker seemed to be discussing two quite different things. Homely argument and everyday illustrations were alone effective. Indeed, in connection with the Department of Shipyard Labour I had to establish a school of economic instruction and teach my officers to recognise well-known economic heresies in the fustian garb in which they paraded through the workshops. This little book, had it been written, would have been most useful.

All trained economists maintain that whatever form the future organisation of society may take, production is absolutely essential to the country's well-being; that point, however, is not yet accepted as a living principle by large sections in industry. I always found my efforts to make that clear thwarted by Marxian fallacy. Without co-operation there can be no adequate production, and here again the spirit of co-operation was invariably hindered by economic heresy. It is useless asking a workman to co-operate with his employer if the workman believes that manual labour is the only source of value and that the capitalist is a mere parasite living upon a surplus product solely derived from the workers' labour. This little book deals admirably with such topics.

It also makes clear a vital principle and one that cannot be over-emphasised. Economics is not the science and art of selfishly accumulating riches at the expense of one's neighbour or of the community, but of promoting the common weal and enriching the community by advancing the individual welfare of each member. Some accept this latter view and then think they can achieve their end by short-circuiting economic laws. There could be no greater delusion.

LIST OF BOOKS QUOTED FROM OR REFERRED TO

Political Economy. By Charles Gide. Translated by Constance Archibald.

Economics for the General Reader. By H. Clay.

Luxury and the Waste of Life. By Prof. E. J. Urwick.

Poverty and Waste. By Hartley Withers.

Unemployment. By Sir Wm. Beveridge.

The Acquisitive Society. By R. H. Tawney.

The Industrial System. By J. A. Hobson.

Principles and Methods of Taxation. By Armitage Smith.

The Meaning of Money. By Hartley Withers.

Karl Marx on Value. By Prof. Scott.

The Revival of Marxism. By Prof. Shield Nicholson.

The Greek Commonwealth. By A. E. Zimmern.

Trades Unions. By C. M. Lloyd.

Books also recommended—

Evolution of Industry. By D. H. Macgregor.

Wealth. By E. Cannan.

And among the many valuable American works on these subjects—

Principles of Economics. By F. W. Taussig.

Theory of the Leisure Class. By T. Veblen.

Theory of Business Enterprise. By T. Veblen.

Business Cycles. By W. C. Mitchell.

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Each of these chapters is intended to give a complete lesson, suitable for class work, or for beginners studying by themselves. It is hoped that the list of suggestions for discussion, given at the end of the book, may be found helpful to teachers for class debate and as subjects for essays.

Ghulam Rasool
IV. Year, Octo
1953

COMMON-SENSE ECONOMICS

CHAPTER I

WEALTH

Definition of Economics.

WHAT is Economics?

The word is much in vogue to-day, and seems to have largely superseded the more old-fashioned term "political economy." People use it glibly, and read it daily in every newspaper, but it does not necessarily follow that they have a very clear understanding of its meaning! When I first went as a student to the London School of Economics, it was surprising to me what a number of people—quite educated, intelligent people—asked confidentially what exactly I was studying, and what precisely Economics meant!

So, perhaps, we had better begin with a definition. And the accepted one is that Economics is the Science of the Production and the Distribution of Wealth. It leaves us a little cold and detached somehow, as if this were a matter for the City and the Stock Exchange; interesting perhaps to clever business men, but hardly of general interest to the "good citizen," whom we should each one of us more or

less like to be. I want to show, if I can, that this is quite a mistake. And to help me show it I will begin with a quotation from a very beautiful book by A. E. Zimmern, called *The Greek Commonwealth.* He says :—

"One of the most important facts about life is that human beings cannot get on without food, clothing, and shelter. Most modern men regard it as the most important fact of all, and spend most of the waking hours of a brief life-time in trying to deal with it. The Greeks did not agree with them. . . . But they faced it as they faced all the facts of life, and put it in its place side by side with them. They even gave their preoccupation with it a name, which has stuck to it ever since ; they called it Housekeeping or Economics. . . . Think of Economics as the study . . . of individual and of State Housekeeping."

Economics means House-keeping.

However, to go back to the classical definition, we must admit that it is undeniably true, even if a little dull ; and if we put the word "Social" before "Economics," the coldness and seeming remoteness vanish. For then we mean that we bring in the Ethic of Economics—the right and wrong of things. We mean that we are not satisfied to learn what is, or even to find out what are the causes of certain results, and so establish certain economic "laws,"—but we are also concerned to know what ought to be. And if it seems that all is not well with our society in this important matter of the Production and Distribution, and we may also add the Consumption of Wealth, then we have to try and find out what is wrong,

Social Economics.

and how far the causes which have undesirable social results can be modified.

It is clearly, then, of the first importance to know accurately what we mean by Wealth. It may seem that this is a superfluous question, for everybody thinks he surely knows what wealth is. But perhaps we shall find that it takes a little more thinking than we supposed, and that a good many wrong or vague answers are commonly given.

What is Wealth?

The first wrong answer is that Wealth is Money. Well, it is certainly the case in our modern experience that a so-called wealthy person is usually a person with a large income. But yet few people, if they stop to consider, really believe that the money is itself the wealth, since the days when King Midas had an object-lesson to the contrary! And to come down to more recent history (or fiction!), Sir J. M. Barrie's fascinating *Admirable Crichton* brought home to us the truth that wealth and the production of wealth had very little to do directly with money. It is obvious enough that gold and silver and bank-notes have no intrinsic power to warm or clothe or feed us, or to satisfy any of our needs and desires. Coins and notes are only symbols of wealth, not wealth itself.*

Is Money Wealth?

* It is, of course, true that silver and gold give satisfaction to the artistic sense by their intrinsic beauty, and they also gratify the love of display. They are, therefore, real wealth in this sense, and so are in a different position, as we shall see later, to paper money. But the difference is unimportant to the point which is emphasised above. Coins are normally not desired for decorative purposes or artistic satisfaction, but for their purchasing power, in other words, not as real wealth, but as orders on real wealth.

They are, in fact, orders, enabling the possessor of them to draw a certain amount of valuable things from the common stock. Without that stock they would be quite useless and unimportant—the shadow of wealth without the substance.

This is the point brought out by the story found in most old-fashioned children's reading primers, of the Arab merchant dying of thirst in the desert, although he is possessed of, and actually has with him, countless coins and precious pearls, which yet he cannot exchange for a draught of water to save his life. The old phrase would have expressed this by saying that all his wealth could not purchase it. But we will choose our words, and use them more accurately. We will say that he had no wealth, but died in the direst poverty and want. His gold and pearls were orders on the wealth of the world, authorising him to exchange them for the real valuables he needed to sustain life. When there was no wealth to exchange them for they became meaningless; claims on a treasure which did not exist.

This old fallacy of Wealth being identical with Money keeps cropping up and confusing the minds of many people, though it has been so often exploded. We shall find it reappearing specially to-day in the question of rising wages and rising prices, together with lowered production. But for the moment it is only necessary to notice the fallacy, and pass on to try and find the true definition.

Shall we say that Wealth is the sum of all valuable things? This is a definition which has a kernel of solid sense in it, but yet it will not stand investigation, or be satisfactory from the economist's point

of view. Many things which are valuable, or indeed invaluable, are still not wealth in the economist's sense, because they have, as he puts it, no "exchange value." For instance, all those things of which there is a free inexhaustible supply, either always, such as air, or at a given time and place, such as water, are not wealth in the economic sense, for every one possesses them and nobody will pay for them. Water, of course, might become a form of wealth, as in the case of the Arab merchant, and in time of drought command a high price, but not under ordinary circumstances. Then, again, a naturally sound constitution or amiable disposition are beyond all price, and the supply of these is certainly not unlimited, but quite the reverse, yet they are not wealth, for they can neither be bought nor sold. It is the same with love and friendship, and indeed all those valuable but unpurchasable things which are best worth having.

Is Wealth the Sum of all valuable Things?

Wealth must always have a value in use. Whatever else it is, it always means the satisfaction of desire. We must remember that things in themselves valuable, and rightly classed as wealth, such as fresh meat, for instance, might cease to be wealth if there were not a sufficient number of people who wished to consume them. It has been pointed out that if a small band of hunters kill a dozen equally fine deer in some remote spot, and can only eat the flesh of one, yet have no means of preserving and carrying away the flesh of the others, then the meat is no longer wealth, though evidently the flesh of the

Wealth must satisfy Desire.

eleven is intrinsically as valuable, as capable of satisfying hunger, as that of the first. Similarly, if a whole society were suddenly converted to vegetarianism, the contents of the butchers' shops would no longer be wealth, but a nuisance!

Wealth must have Value both in Exchange and in Use.

We see, then, that we cannot define Wealth as the sum of all valuable things, and the point that emerges is the one we have alluded to in passing, namely, exchange value. Wealth must have value in exchange as well as in use. Could we put it, then, that Wealth is the sum of all things which have value both in use and in exchange? We are getting very near it now, but still there is a flaw. It is the word "things" which is misleading, for it seems to suggest material things only, and it is not only those which satisfy desire. In order to satisfy hunger most of us require not only food, but some one to cook it for us! In buying a business it is usual to purchase not only the premises and the stock, but also the good-will. And we can carry it further than that. The master who teaches us, the musician who plays to us, the physician who cures us, and a host of others, though they offer us no tangible goods, yet give services which not only command a high exchange value, but have the highest value in use, and most certainly satisfy human need and desire. They must clearly, therefore, be included in our definition of Wealth.

The true Definition.

Our definition, then, must run thus: "Wealth is the sum of all goods and services which are capable of satisfying desire, and which have a value in exchange." A moment's consideration shows us that the very fact

of their having value in exchange implies that for some good or bad reason people desire them—in other words, that they have a value in use also. So we see that value in exchange presupposes value in use and cannot exist without it, but the reverse is not true, for we saw that many things had value in use which are not exchangeable, and therefore in the economic sense are not Wealth.

Some people have claimed that men and women are the real wealth of a country. This is a stimulating metaphor for the social reformer, reminding him of the great truth that human beings have a value far above that of anything they can produce, and that, as Kant said, each individual is an end in himself, not only a means. But metaphors in Economics are dangerous things, and should be avoided as much as possible. If we define the producers as wealth, and the goods and services they produce also as wealth, and proceed on this basis to consider the problems of a proper distribution of wealth, we shall find ourselves hopelessly entangled in a verbal maze! We will, therefore, stick to the more practical, though more prosaic, definition which we have already given.

perceptible or
alid ~~gain~~ knowledge
can we gained by the
reader who has not any
Thorough apprehension of
the subject.

CHAPTER II

VALUE *

THE first thing is to remember that Economics deals with exchangeable values and not with moral values.

Exchangeable Values and Moral Values.

Wealth, we saw, included all exchangeable goods and services capable of satisfying desire, and the economist cannot stop to inquire whether the desires be good or evil. That is not his province as an economist, though it may very well be his duty as a social reformer, or perhaps part of his ordinary business as a good citizen. The food that nourishes men, or the drugs that destroy them, are equally Wealth in the economic sense, though the latter may be really "Illth," as Ruskin called it, and destroy values instead of creating them. Or, again, the drugs may be wealth if they are properly used, and illth if they are abused. The economist cannot go into these matters ; he must leave moral judgments on one side.

What determines Value ?

Admitting this, we have next to inquire what causes exchange value. Why is one thing more valuable than another ? Or more valuable at one time and place than at another ? The ordinary conventional

* For this and the previous chapter I am specially indebted to Prof. Urwick's lectures.

reply would be that this depended on Supply and Demand. If there is a large demand and a small supply of any commodity its value will tend to rise, while "contrariwise," as Tweedledum would remark, if there is a small demand and a large supply, its value tends to fall. This is true enough as far as it goes, but it does not go far enough to be very helpful. We want to dig deeper than this, and find out what are the underlying fundamental roots from which supply and demand spring, and which are the real psychological bases of value.

The Needs and the Riches of others.

And we find that value is always relative, and that relative values are determined by two things, which Prof. Urwick has summed up as the needs and the riches of others; first, the extent to which other prople need and desire the stuff we are trying to value, and, secondly, the amount of stuff which they themselves possess and are able to give us in exchange. As a matter of fact, exchanges are not, of course, carried on nowadays by direct barter, as this language suggests, but by money payments. This, however, makes no difference. When we come to discuss the question of money we shall find that two of its chief functions are to give us an easy medium of exchange, and also a convenient way of measuring value, and we have already seen that money is only a symbol or token.

Effective Demand.

To return then to the two factors which fix value, we see that the first alone is not very important to the economist. Many people no doubt need and desire many things, but if they cannot afford to pay for them, at least as much as they cost to produce, it is not what

the economist calls "an effective demand," and simply does not count. This is very important from more points of view than one. For if a man, or a firm, or a nation, desire to be rich, and extend trade, and increase wealth, it is all-important to their purpose that their neighbours, other men, firms, and nations, should also be rich. It is of no use having plenty of stuff to sell if nobody else can buy—in other words, if your neighbours have no other stuff to exchange for yours. The plain fact is that so long as A. does not produce identically the same stuff as B. (in which case obviously there could be no exchange, and no increase of wealth by the mutual satisfaction of desire), the more each produces the better for both.

An Example in recent History.

So stated, this seems simple and obvious enough, yet it has been too little recognised in the past. We have only to glance at the close of the Great War, and the policies which followed it, to realise how many people sincerely believed that the best way to make the Allied countries rich and compensate them for their ruinous outlay, was to make their late enemies poor, and cut them off from trade, and destroy their business as far as possible. I am not arguing as to whether this would have been a right and justifiable course of action to pursue, but simply pointing out that economically it was quite unsound. If Central Europe remained permanently crippled and impoverished, the rest of the world could only be the poorer too, not the richer, as a result. Not only would the whole world's supply of wealth, as we defined it in the last chapter, be terribly less, but the wealth actually produced would have lost a

great market. And fresh markets always create fresh values. Of what use would it be from a business point of view to export goods to Austria and Germany if they had no other goods to exchange for them? Or, again, consider the case of Russia, which had goods and raw materials we required. From the political point of view it may or may not have been wise or necessary to have a blockade, or to refuse to trade, but economically speaking, it could only lead to greater mutual poverty, not, as probably many believed, to greater poverty on the one side perhaps, but to greater wealth on the other.*

How Exchange creates New Values.

To make it clearer how exchange actually creates new values and increases wealth, let us suppose the case of a settler in a new country, who tills the ground and grows vegetables on which he and his family live. They can grow perhaps far larger crops than they need, but it is scarcely worth while doing so, as there is no use for them, and they are practically valueless. If, however, another settler comes along, and devotes himself to the production of poultry, the case will be very different. The first farmer can exchange his surplus potatoes and swedes and greens for some of the surplus eggs and fowls raised by his neighbour, and both will be the richer for the transaction. The stuff they each produce has acquired a fresh value,

* It is not, of course, denied that restriction of competition does often pay the persons who sell the protected goods, just as restriction of output may, for a time at all events, pay the class that restricts the output, if it is wise enough not to carry the policy so far as to spoil the market. But this is one of the cases where the interest of the part is against the interest of the whole; the individual private sectional interest out of harmony with the general public social interest.

and new desires are satisfied. If a third colonist settles near and goes in for dairy work, and exchanges milk, butter, and cream with his neighbours, and then a fourth, who breeds pigs, and can pay for the milk and eggs and vegetables he requires in pork and bacon, obviously the little community will be constantly growing richer by the addition of the wealth of each new member. But if a neighbour is too poor to make any effective demand, if he cannot produce anything, or offer his fellows any services in exchange for their stuff, then he cannot add to their wealth. I have gone into this point at some length because it seems vital both in business and in politics.

Desire and Calculation.

Underlying all value we always find both desire and calculation. It may seem at the first glance that this can hardly be true, for the two attitudes of mind expressed by desiring and calculating seem essentially different and even antagonistic, but yet we shall find that they are really inseparably associated. To put it very simply, every person who desires something, no matter what, does figure out in his own mind, however roughly, or even unconsciously, how much it is worth to him. How much effort and sacrifice will he give, that is to say, measured in terms of money payments, to secure the satisfaction of his desire? He will almost instinctively compare one satisfaction with another. For payment of money it must be remembered always implies underlying human effort and sacrifice, though it may be some one else's effort if the money was inherited or otherwise not earned, and the sacrifice may be small if the income is large. Still the effort and sacrifice always exist.

Wants are limited in most things. As they are gratified they grow less. For a first satisfaction of an imperative need, say, hunger or an ardent desire, a man will be willing to strive and to sacrifice much. That is, he will place a high value on it. But as his hunger is appeased, the satisfactions multiplied, the desires satiated, then the efforts and sacrifices will appear proportionately greater and more irksome. Now all sane men desire the maximum satisfactions with the minimum of effort and sacrifice—it is one of the prime laws of desire. It follows therefore that the man whom we have imagined will not be willing to pay so high a price to obtain what has become a smaller satisfaction. In other words, he will place a lower value on it. As the value obtained lessens, and the sacrifice incurred increases, it is clear even without the use of figures and diagrams, which are a thorn in the flesh and a stumbling-block to many excellent and otherwise intelligent persons, that a point will be reached where the two meet as it were; that there is a limit or margin beyond which the man will not pay and below which he cannot obtain the satisfaction. This is called by economists the Point of Satiety,* or the Point of Marginal Satisfaction, and it is this, combined with the state of supply, which decides the market value. This can be expressed in another way by saying that the Final Utility of any commodity to a purchaser, combined with the Costs of Production, settle the price.

The Point of Satiety.

Final Utility.

* Mr. Clay has expressed this by saying that Satiety is the point at which an additional supply gives *no* additional satisfaction, while the margin is the point at which the additional satisfaction is *less* than the additional cost.

We seem now to have reached a position in which Value and Price would appear to be identical. Is this in fact correct? Is the deduction from what has been said about desire and value and money payments, that value and price are the same thing? We must distinguish very carefully here, for the point is important. If we have slipped back half-consciously, as we may very easily have done, into using the word "value" as meaning "value in use," then clearly value and price are *not* identical, for the simple reason that the one varies with every individual and at every hour, and the other does not. Value in use, to put it concisely, is subjective, and price is objective.

Value and Price.

Does this sound confusing? Think of it in this way. You value a drink of iced lemonade on a hot day, after a cricket match or a pull on the river, at one rate, and at quite a different rate if you think of it on a misty autumn afternoon when fires are lit and curtains drawn. Its value in use to you is obviously quite different. But the price of a bottle of lemonade of the same brand is a constant factor. We saw that the value in use of loaves of bread varies with hunger, but the price of all loaves of bread in the same market is the same, and, indeed, as we shall see later on, there are reasons why this must be so.

But if, on the other hand, we are keeping strictly to our economic definition of terms, as we ought to do, and mean by value simply "value in exchange," then price and value *are* the same thing, and vary, if they vary at all, together. To say that the exchange

Value in Exchange

value of anything has risen, is simply another way of saying that its price has risen.

Fluctuation of price is a very large subject, and can only be touched on at this stage. It is determined by many things; by the costs of production, which again depend largely on the varying standard of life; by the relation of supply and demand, not only in regard to finished commodities, but also with reference to the three factors of production dealt with in the following chapters; and by the abundance or scarcity of raw materials. But the psychological element, the varying strength of desire and calculation in large bodies of people, is undoubtedly a big factor in affecting prices and influencing markets. And so, in the long run, though not directly and immediately, the subjective "value in use" does modify the objective "price." It would be a fair definition of price to say that it was marginal value measured in money! Of prices, markets, and money we shall speak more fully later on.

Fluctuations of Price.

Supply and Demand and Costs of Production.

NOTE 1.—At one time economists seemed obsessed with the word "Marginal," and used it to excess, thereby causing much suffering and confusion to many students. They spoke of Marginal Productivity of the Marginal Field or Mine, meaning the last one which it would pay to cultivate under given conditions; the Marginal Man, *i.e.* the last one who could be remuneratively employed, and so on. There is now a revulsion of feeling, almost a revolt, against the word, and some of the best economists try to avoid its use altogether. It is not, however, easy to dispense

with it completely, and it is almost bound to be referred to from time to time.

NOTE 2.—Subjective and Objective. The Subject is the person who thinks or wills or acts, the Object is anything or everything outside the Subject. Subjective facts are therefore facts that refer to individual subjects only. Objective facts are facts which refer to any people or things outside the subject. The curve of desire, rising and falling according to its strength, is subjective, and varies with each individual or mood. Price is objective, independent of single individual variations, and is relatively speaking fixed.

CHAPTER III

THE FACTORS OF PRODUCTION *

Inquiry how Wealth is produced.

Now that we have occupied the first couple of chapters with a discussion on the nature of wealth and the meaning of that value which is inseparable from wealth, the next step seems naturally to inquire how wealth is produced? But Wealth takes such a multitude of diversified forms that this may appear a ludicrous question to ask, and one which it is impossible to answer in a phrase or a chapter, or perhaps even in a volume. Rather strangely, however, this is not so. As the whole material universe, so far as we know it, is made up of infinite combinations of a very limited number of elements, so all forms of wealth need for their production three factors or agents, and can always be traced to them. And moreover this is true not only of material goods and services, but of production in its wider sense, including artistic and literary creation. It is desirable to remember this, for life is, mercifully, not made up merely of manufactures, and Economics would be less interesting than it is if its principles could only be applied to them! We referred to the Agents

* For this and subsequent chapters see specially M. Gide's *Political Economy*, Book I, Part I.

of Production in passing in the last chapter, and must now examine them more closely.

The three Agents.

What are these agents? They are Land, Labour, and Capital. Some people reckon a fourth, and of that we shall speak a little later; but without the three we have mentioned no production of wealth is possible under modern conditions, though we must not forget that in primitive times the first wealth must have been slowly and painfully created without the help of any Capital, since none existed. In the Nomadic Ages of man Nature was the prime factor; in the Pastoral and Agricultural Ages more and more Labour was brought into play to act in conjunction with Nature; in the Industrial Age the other two are insufficient alone and Capital takes a prominent part. It seems right, therefore, that Land and Labour should always be mentioned first, as they are, ranking as primary partners, while Capital ranks last, as a secondary though not less important partner in the work of production.

Land.

We must be clear as to the meanings of the terms we use. By Land we mean briefly all Nature-powers, as distinguished from human powers; not only the solid earth, but water, mines under the earth, electrical and gaseous forces—everything in short with which Nature has provided the world without any interference on the part of man. It would really be more descriptive to use the word Nature-Power instead of Land, but the use of the latter term grew up in the days when economists were chiefly concerned with agriculture, as the predominant interest and industry of their times, and

thus Land would occur to them as the natural word representing the chief gifts of Nature. Now its use has beome traditional, and it is not worth troubling to change it, since it causes no real confusion.

Labour.

By Labour we mean all the powers of men, who by effort, skill, and intelligence use the Nature-Powers to their own advantage, and wrest the fruits of the earth from her sometimes reluctant hand. It will be seen, therefore, that we include brain-work as well as manual work.

Capital.

By Capital we mean Wealth which is not immediately consumed, but is used for the production of more wealth.

How the first Capital was formed.

Let us glance back from the world as we know it, and try and realise how economic questions—that is to say housekeeping questions—questions of food and shelter and clothing, must have seemed in the earliest ages. Primitive man must have earned a precarious living from day to day. All the wealth he gathered he consumed at once. The berries he picked, the roots he grubbed, the flesh of the wild beasts slain with his naked hands for food, their skins to clothe himself, were all needed for immediate use to sustain life. They were consumed as fast as they were produced. Tools, the characteristic form of Capital, as we shall see later on, were completely lacking. How were they acquired? To some savage more intelligent than the rest, or guided perhaps by happy accident, the idea may have occurred that far more roots could be grubbed up with some implement roughly corresponding to what we call a spade; more game killed

by the use of some primitive weapon, formed, perhaps, by binding a sharp flint with a tendril to a piece of wood. But the digging tool or axe, invaluable as they would be, would take time to make, and meantime the man must live. What could he do ? There were only two possible means by which this first capital could be acquired ; either by extra labour, or else by sacrifice and self-denial—what the economists call Abstinence. Either our savage, when he returned weary from the day's hunting for a living, must put in extra hours of work, or he must abstain from eating some of his supply of food, and save it as a store for his support during the days given up to tool making. More must be produced or less consumed. The first step must have been very difficult and painful, but, the tools once made, wealth would be produced far more easily and rapidly.

Crusoe Economics.

The circumstances of the gradual building up of Capital from little or from nothing has always fascinated writers of fiction with a taste for adventure and romance. We find it in all the stories of the self-made man, the delightful *Thompson's Progress* and the like. We find it in *Robinson Crusoe*, in *The Swiss Family Robinson*, in *Masterman Ready*, *The Coral Island*, and a host of others. The details of their housekeeping—their economics !—under peculiar circumstances, deprived of the accumulated stores of civilisation, have such a powerful attraction for our minds that we read these books despite the depressing amount of moral instruction which is entangled with what we really want to hear about ! But we have to confess that the writers seldom or never really

face the problem of man trying to create wealth without the aid of *any* pre-existing capital. The truth is that it would be too difficult, perhaps even impossible, in the case of a single survivor from a wreck, limited to a single lifetime. As M. Gide has amusingly pointed out, if these conditions were strictly insisted on, the story and the man's life would both come to an untimely end in the early pages. To avoid this calamity the writers see to it that some store of existing wealth, some necessary tool or weapon is saved from the wreck—a flint and tinder, a knife, a shirt, a rope, or what not. Then their Crusoe, with his own labour to depend upon, and plenty of Nature-Power readily available in his paradise of a desert island, and with this modicum of indispensable Capital, can go gaily ahead to provide goods and services for his own use, and gradually to accumulate more capital to aid in the production of more wealth.

Management, the Fourth Agent.

In modern days of large-scale production and very complex industry, the art of management has been considered by many people to deserve a special place of its own, and it is often called the fourth agent or factor of production. There is no objection to this if it is found helpful and convenient, except that labels tend to make barriers and caste divisions, and the chief need of our troubled times is for a greater unity. It seems to us, therefore, preferable to remember that all Labour is one, whether it is by hand or brain, done in shirt sleeves or in a black coat, and to class Enterprise and Management as branches of Labour, while fully recognising

that they are specially important branches which need special treatment.*

We cut this chapter short, as it will be better to give separate chapters to Land, Labour, Capital, and Enterprise, and again separate chapters to the special problems of distribution connected with each—problems of the highest importance and interest, both to the economist pure and simple and to the student of social questions. Rent, Wages, Interest, and Profit are some of the points we shall have to deal with in turn.

* It is quite possible to argue with some force that though Management is merely a special kind of Labour, Enterprise is something more and should be classed in a separate category. The special position of Enterprise is discussed in a later chapter.

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CHAPTER IV

LAND

LAND is sometimes called the sleeping partner among the agents of production, but all the same it is easy to see why it comes first on the list, for nothing at all can be produced without it. It is not merely essential to agriculture and what are called the extractive industries, such as mining and quarrying, though naturally those first occur to us, but there is no manufacture which does not need it to a greater or lesser degree. A man must have land to stand on, or he cannot work at all. A factory cannot be poised in mid-air. That is obvious. But, besides, Labour can do nothing without raw material; and all the raw materials of Industry, animal, vegetable, or mineral, come from Land, which it will be remembered we defined as meaning all Nature-Power of every kind whatsoever.

Why Land is put first.

Not only the soil but the riches of the sub-soil and the water-ways are the gifts of Nature. So is the geographical position, and the facilities of transport by land or water, which may be of infinite importance in deciding the wealth or poverty of a country. The very climate, too, for that may have a determining influence

Gifts of Nature.

on the character and industry of a people, and, of course, motive power of every kind, are gifts of Nature. Not only coal and oil, not only electric force, but water-power, that tremendous store of force in waterfalls fed by glaciers, which the French so graphically call "white coal" (*houille blanche*). And again, not merely the force of water which can be harnessed, but the different chemical properties of water may also have a profound industrial effect. For instance, it is claimed that the waters of Lancashire descending from the Pennine range have certain qualities which render them peculiarly suited to the bleaching trade. And, to give another example, the water of Bermondsey is believed to be specially effective for tanning purposes. Such variations of Nature-power will clearly affect the whole industrial character of a locality. It may seem strange at first to class all these different assets under the common heading of Land, but yet they clearly belong there when the true sense of that term is remembered. Animals, too, not merely in the sense that clearly their flesh and horns and hides may be used as raw materials, but in the sense that their breeding power can be and obviously is used to increase wealth, must be included as part of this Nature Agent. The vital distinction to bear in mind is that, unlike Capital, none of these gifts of Nature have been created by man.

Their Limit.

Another very important point to notice is that Nature's gifts are not inexhaustible. They have a limit. At first sight this may not appear to be true, so we will examine it more closely. It is fairly evident to any one that a fishery

or a mine or a hunting ground will become exhausted in process of time—the mine, if all the seams have been thoroughly worked, finally so; the fishery or hunting ground to the extent that they must be allowed periods of rest and recuperation (close seasons), in order to replenish themselves. Now it is no less clear to the agriculturist that the soil also becomes exhausted, and can only produce fresh crops if left fallow and unproductive for one or more seasons, or else at the price of increased labour and capital.

They are not inexhaustible.

This may be granted readily enough, and yet its full meaning and importance to the human race not at first fully appreciated. For it may be argued that, as the wealth and population of the world are constantly increasing, fresh labour and capital will always be available, and the stream of supplies from Nature will pour forth as freely or more freely than ever, adequate to meet all demands on them. This was, in fact, the position taken up by many hopeful people in the seventeenth and early eighteenth centuries. They admitted, of course, that theoretically, since the area of the earth was limited, there must also be a limit to the number of people it could eventually support. But short of that point, which seemed a comfortably long way off, they saw no further cause for uneasiness. They looked forward consequently to a golden age of plenty for all men, and had no fears of over-population.

Optimistic Views.

But there is a grave fallacy here, to which a distinguished economist named Malthus called attention. Very often over-optimism, especially of

an unreflecting kind, is a cause of reaction and pessimism in others! The father of Malthus was an excellent clergyman, much imbued with the utopian anticipations we have alluded to, and it seems highly probable that this was not without its effect in directing the critical powers of his son on to his theories. Malthus remarked that if the facts were correctly observed it would be found that additional doses, so to speak, of Labour and Capital applied to Land, do not produce a return *in proportion to the outlay.* In fact, the returns will constantly diminish.

Theories of Malthus.

Let us take an illustration of this. We will suppose, for example, that a farmer has spent £100 on a field, draining, ploughing, manuring it, and getting a certain crop in return. If you ask him whether he would not get a bigger crop if he spent more on the field, ploughed deeper, manured more heavily, and so on, he would no doubt answer that this was certainly so, but that at the same time it would not pay him to make the larger expenditure. If he redoubled his exertions and spent twice the amount, he would, of course, get more out of it, but not twice as much. And as the seasons pass and the soil becomes exhausted, the farmer will not get as big a crop for the same effort as he did before. Each year the proportion of the reward will be less, once the field has been worked to the limit of its natural fertility, unless he lets it rest, or unless science comes to his aid with better and cheaper methods. It is clear that sooner or later a point will be reached when it will not pay to incur extra

An Example.

The Law of Diminishing Returns.

expenditure. This is one of the most celebrated of economic laws, and is known as the Law of Diminishing Returns, or of Non-Proportional Returns. What is its bearing upon social problems?

Malthus' Laws of Population.

The Law is generally connected with the name of Malthus and his Laws of Population, on which we need do no more than touch here. He formulated the fact we have already noticed, that, as the area of the earth's surface was limited, and, as he showed, the population of the world tended to increase at a vastly more rapid rate than the food supplies, a time must come when the supplies would be insufficient. His figures and calculations brought this home to people as a practical and vitally important matter, very vividly. The formula which he worked out was that the population increased by geometrical progression, that is to say by multiplication, while the food supplies only increased by arithmetical progression, that is to say by addition. From this he deduced certain very serious consequences for the poor, which we shall have to consider more closely when we come to the question of wages, and the standard of life for the workers, and how it can be improved. These consequences, he said, were inevitable, unless the growth of the population were checked and controlled, either by war, pestilence and famine, or by certain voluntary methods. To the cheerful people who looked forward to an easy Eldorado for as many as might come, saying smilingly that for each new mouth God sent a new pair of hands, he gave the gloomy answer, which John Stuart Mill afterwards crystallised into a famous phrase, that the new mouths needed as much food as the old ones, and the new hands could not produce so much!

Malthus, after being a great prophet in his own day, is somewhat discredited in ours. Things have turned out somewhat differently from what he or any one of his age expected, and no doubt he stated some of his conclusions in an exaggerated and untenable form. But it is fair also to remember that his theories have been very much misunderstood and misstated, and really twisted from his original meaning. The Law of Diminishing Returns * is unquestionably true if it is correctly stated, as follows: "There is a point beyond which an increase of Labour and Capital applied to Land, in a given state of skill and knowledge, will not result in a proportional increase of production."

Correct Statement of the Law of Diminishing Returns.

But where is that point? We must remember, in order that we may not be too much depressed, as many of Malthus' followers undoubtedly were, that the point is not fixed. First another tendency, that of Increasing Returns, operates, and it is

Effect of New Developments of our Civilisation.

* It has been suggested by Mr. Clay that the expression "Increasing Costs" is less liable to misunderstanding than "Diminishing Returns," which is apt to mislead, since the *actual* returns increase though the *proportional* returns are less. This is brought out by the term M. Gide uses, "Non-proportional Returns." Whatever name one gives it, however, it is important to notice, as Professor Cannan has pointed out, that the law applies, if closely observed and correctly stated, not only to agriculture and extractive industries, but to manufactures also. That is to say there is some "maximum point" up to which returns increase with the application of extra capital and labour, and after which they diminish. The desirability of more or less population in any given country at any given period will therefore depend on whether or not this point has been reached, and the position of the point will vary with time and circumstance and knowledge. See *Wealth*, by E. Cannan, chap. iv.

impossible to foretell with any certainty the moment at which it will cease to operate, and the Law of Diminishing Returns come into play. For this depends on many things, new methods, new inventions, new discoveries, to which the new hands and brains undoubtedly make most valuable contributions. All these postpone the operation of the Law, though they cannot defeat it ultimately. The opening up of new countries, the development of rapid transport, and of scientific means of preserving food to an extent not dreamed of by Malthus, have also greatly affected the population question. And it is quite probable that we have so far only explored a mere fraction of Nature's potential fertility, and that future generations may revolutionise our ideas as to how to use and apply that fertility which we already do know. But, granting all this, the population question will always be one of the most difficult of our social problems.

Ownership of Land.

We must reserve for a later chapter consideration of the payment or reward to Land as an agent of production, that is to say, Rent. The question of the ownership of Land is too long and controversial to be entered into in a book of this kind, but I recommend those who are interested in it to read M. Gide's impartial examination of it in Part II. of his *Political Economy.* He deals briefly with the history of the different methods in which land has been, is, or can be held, and discusses the advantages and disadvantages of them all. He concludes in favour of individual rather than collective ownership, on the grounds of social utility, but with several provisos and restrictions.

CHAPTER V

LABOUR

NATURE does not as a rule give up her riches freely and easily; she yields them only to the labour and effort of man, sometimes it seems almost with a grudging hand. Even in the most lavish parts of the earth, with the richest soil and the kindest climates, still fruit must be picked, roots dug, fuel collected, fish caught, game trapped, and shelters made. And in the leaner lands, under grimmer skies and harsher conditions, and especially where the population presses on the means of subsistence, it is literally only in the sweat of his brow that man eats bread.

Need of Man's Co-operation.

Wealth is created by Labour transposing and transforming the raw materials which Nature gives, making them fit and available for human needs. No one process of labour can therefore rightly be said to be "productive" while another is not. Agriculture is no more and no less productive than manufacture, or than transport or commerce, or retail trade. They are all equally important steps in the great series whereby wealth is produced. It may seem difficult at first to realise that this is true, especially of

What is Productive Labour?

transport and commerce. For a long time it was strenuously denied by many distinguished economic writers, and, indeed, the history of economic theory is quite largely occupied with the gradual recognition of its truth. How, it may be said, can a railwayman, or a merchant, or a shopman be in any real sense a producer? He only sells or moves about what others have produced.

Moving Matter.

But a little consideration will clear up this difficulty. For this very "moving about," of which we speak in this rather contemptuous fashion, is, if we come to think of it, just exactly what man's share of production always amounts to. Only this and nothing more, to quote Poe's raven. In Agriculture he moves the earth about, by ploughing and harrowing, and so admits sun and air; he moves stones and weeds away; he moves manure on to the soil, etc. The cereals and vegetables which he raises are very different from the wild grasses and roots of Nature, and we all admit readily enough that he has "produced" them. We shall not be inclined to deny either that the miner "produces" coal, in a perfectly just and intelligible sense of the word. Yet he has only moved it from the seam on which he is working in the heart of the earth, up to the surface. He has not made the coal, certainly, but he has produced the wealth by taking it to where it has a value in use and in exchange.

All Work is Productive Work.

Now consider. Is not this equally true of the transport workers and commercial agents who take the coal from the pit mouth and deliver it all over the

world where it is wanted? As to the processes of manufacture, few people find any difficulty in recognising that silk goods, flannel, linen, cloth, steel, or almost any article you like to name, are "produced" in as real a sense as the flax or cotton or other raw material out of which they are made. The manufacturer, has in fact, transformed the material into commodities for human use, and the shop-keepers make the goods accessible and available for all customers. It is true of all services. If the farmer who raises your food is a producer, so is the miller who makes your flour, the butcher who kills the meat, the cook who prepares it (we must hope!) so as to make it wholesome and palatable, or the doctor who cures you if it has disagreed with you. One might multiply instances by the score. They all produce something—necessaries, amenities, or conveniences. So, then, we see that the popular distinction between productive and non-productive labour is not valid.

Various Forms of Productive Work.

Another distinction often made is between hand-workers and brain-workers. When people talk about Labour they frequently, indeed usually, mean only the former, yet each group is equally indispensable for effective production. Often, indeed, inventors, organisers, managers, and other brain-workers, play, man for man, a specially important part. They are, as it were, the key-men of Industry, though it is, of course, quite true that they would be useless and helpless without the great body of manual labourers who carry out their plans. These bear

Brain-Work and Manual Work.

the burden and heat of the day, and too often in the past they have not had a fair share of the product as their reward. The best citizens and the wisest captains of industry are sincerely anxious to remove this injustice. We shall have to examine the question and the various remedies proposed when we come to the problems of wages.

Division of Labour.

We must now try and trace, very briefly, the great change which, looking back over history, we see has come over the methods and conditions of this all-important partner in the production of Wealth. It can be summed up really in three words: "Division of Labour." So important did Adam Smith, the great Father of Political Economy in the eighteenth century, think this matter was to a proper understanding of Economics and Modern Industry, that he devoted the first chapter of his famous book, *The Wealth of Nations*, to a full consideration of it.

Birth of Crafts and Specialisation.

If we go back to primitive times we find that each individual, or at least each family, was self-supporting, providing its own food, clothing and shelter with very little help from outside. There was no co-operation, and consequently great waste of effort. It was a long stride forward in social economy when certain people began to specialise and confine themselves to some particular work. Thus one man would be a smith, one a miller, one a tailor, and so on, each giving his services to the whole village community, in return for other goods and services produced by them. This process, being found very convenient, would be further developed,

and different trades and crafts would spring up and multiply. The skill of persons always practising some one employment would naturally be much greater than when every man had to be a Jack of all trades or else perish. Production would be more rapid, and the total sum of satisfactions vastly increased.

So far all the advantages of Division of Labour had shown themselves to mankind, and none of the disadvantages. But now came the transformation scene which altered the whole face and life of England, and turned her from a chiefly agricultural into an industrial country. This great change is called the Industrial Revolution, and the date of it—one of the few dates which it is really imperative to remember in the study of English economic history, was 1760. This does not mean, of course, that the Industrial Revolution took place and was finished and done with in that or another particular year, as might be the case with a battle or the overthrow of a tyranny. Probably most people who lived at that time were not aware that anything very significant or memorable was occurring. But we, looking back, can trace the beginning of a new epoch to that year.*

The Industrial Revolution, 1760.

What were the causes that led to a change so vast as to be called the Industrial Revolution—a change which swept English men and women and

* In one sense it must be admitted that the date 1760 is misleading, for industry did not really get established on the basis of machinery and power till after 1800. But the inventions which made the change possible date from the earlier year.

little children by thousands from the green, pleasant country-side into the dizzy din of factories, and the filthy slums which sprang up to receive them? They were two. There was the introduction of new complex machinery, worked by motive power, first by water, afterwards and more important by steam, instead of the old simple machines worked by hand. And, secondly, there was an enormous development of the principle of Division of Labour. This was now applied in a manner and carried to an extreme that had never been contemplated before, or conceived of as possible. It was found that by breaking up one complex process, the manufacture of a single article—like a pin, say, to take Adam Smith's famous example—into a great number of very simple processes, each of which was so easy that it could be rapidly and mechanically repeated by unskilled or semi-skilled workers, enormous economies could be effected. The number of pins that could be manufactured in a day by a given number of people was increased literally many thousandfold. It is no exaggeration but a plain statement of fact to say that the whole of modern large-scale industry rests upon the twofold basis of power-driven machinery and the thorough application of the principle of Division and Sub-division of Labour.

Machinery and Modern Industry.

Sub-division of Labour.

The effects in increasing the production of wealth and in the evolution of countless new wants which the new wealth could gratify, are before our eyes and are seen to be almost miraculous. The poorest woman to-day has a floor covering of some kind, a lino or a carpet,

New Wants and new Wealth.

while great queens in the past, and not the very long past either, had only rushes strewn to conceal deficiencies and dirt. To go back still further, we have pins. Eve had not, neither had Adam a stud, nor the need of one since he had presumably no collar to afflict him. So the new wants and the new wealth grew apace, each stimulating the other. The results, measured in terms of the welfare of the workers, are also before us, and they cannot be said to be so satisfactory. This is not an industrial and social history, but just a few consequences of the Industrial Revolution to the life of modern England must be noticed. First the rapid increase of the population, which doubled itself in a few years. This was due largely to the increased demand for cheap labour, leading to early marriages and large families, and it was rendered possible by the food paid for by the new manufactures. England changed from a chiefly agricultural to an industrial country. Second we note the shift of the population from south to north, where the coal was, and from country to town, while there was as yet no knowledge of sanitation or how to live decently in large numbers at close quarters in crowded cities. Third, the change in the character of the work of the people, from handicrafts and complete processes, which had an interest and were to some extent an education in themselves, to mechanical and largely unskilled operations, marked by a deadly dullness and monotony. Indeed, the change in the national life was so great and far-reaching that it did truly amount to a revolution. And, like many another revolution, it led inexorably to new

National Wealth and Welfare.

conditions never contemplated by those who promoted it. The conditions were both bad and good. Succeeding generations have to accept their legacies, and cope with them as best they can. We cannot possibly undo and reverse the Industrial Revolution, even if we wished to do any such thing. Our population of over forty-four millions could not be fed for one thing, if we reverted to the old methods of hand-crafts and agriculture—probably not a tenth of them. However much there is to regret and repent in the past we cannot wipe it out, but must deal with its consequences, grim and bitter though some of them are. What we can do, and indeed must do, is to root out the tares which have sprung up and threaten to choke the wheat, to keep what is valuable and necessary, and destroy what is evil. We shall have to consider this specially when we are dealing with the conditions of our modern Industrial System.

Our social Legacies.

CHAPTER VI

CAPITAL

If we remember our definitions in the first and third chapters, we shall not fall into the error of using the word Capital as equivalent to Wealth. There are two kinds of wealth, and it is only to that part of it which is used to produce more wealth that we give the name of Capital. The other part which is not productive, but consumed more or less rapidly in the form of necessaries and enjoyments, we call Consumption Goods. It is true that things like houses, silver, or furniture, are not immediately consumed; indeed, they may last hundreds of years. But still they do eventually wear out, and then they are finished and done with; they have produced nothing wherewith to replace themselves. But this Phœnix-like quality of self-renewal is one of the characteristics of Capital. Even if some Consumption Goods, such as jewels, seem to have a practically unlimited life, still they are clearly not Capital, for they are not a factor in the production of wealth.

The third Agent.

Capital and Consumption Goods.

So far this seems simple enough, but now we have to notice there are two forms of Capital, alluded to, at any rate, as such in common speech, and which

Prof. Gide, the French economist so often quoted in these pages, has described and distinguished most clearly and admirably. He calls them Productive Capital and Lucrative Capital. The first only is true Capital in the economist's sense, according to the definition which we have given, for it actually serves to create new wealth. The second does not necessarily do this. It may serve only to bring in an income to its possessor, and in so far it merely transfers existing wealth instead of creating more. It is thus clearly not true Capital, though in modern times it is generally called by that same name, and it is against this form of Capital, which is indeed the heel of Achilles of our present capitalistic system, that many socialistic indictments are levelled, on the ground that it does not perform its proper function of aiding production.

Productive Capital and Lucrative Capital.

To make this clearer, let us consider the case of a man owning a large sum of money in excess of what he proposes to spend on Consumption Goods for himself and his family. What will he do with it? If he invests it in, say, a manufacturing company, or a farm, or a business of any kind, the money will be spent in one of two ways. Either it will be sunk in buildings, engines, machines, or plant of some kind which can be used to produce many times over, in which case it is called Fixed Capital, or else it will be used in paying the wages of the workers, buying fuel for the engines, seed-corn for the farm, cotton for the factory, etc., etc, which can only be used once, and which are consumed in their one and only act of production. In the latter case it is called Circulating Capital. Both

Fixed Capital and Circulating Capital.

of these are essestial to production. But let us suppose for a moment that our moneyed man is a money-lender, who simply lends his money to provide an income for himself in the form of interest paid by the borrowers, then, in his hands, it is clearly not Productive Capital, but only Lucrative Capital, for no new wealth is created. If the borrower invests the borrowed sum in some productive work, then, to be sure, it becomes true Capital, fulfilling the proper economic function which lies latent in it like an unused power. But if he only spends it on Consumption Goods it will not perform that function—the money simply passes from hand to hand, and, except in a very indirect way, does not produce anything. It does not follow that the transaction is wrong, but it has nothing to do with the investment of Capital.

Things which may be either Lucrative or Productive Capital, or Consumption Goods.

How are we to recognise and identify these two forms of Capital? Money is the usual form taken by Lucrative Capital, but it is a curious fact that almost any Consumption Goods may become Lucrative Capital if they are not used by the owner for his own enjoyment, but let out for hire. A house or a carriage or a wagon are instances that will occur to everybody, of goods which are capable of earning income for their owners in this way. But it is even more interesting to note that they may also become Productive Capital; if the house for instance is used as a place of business, or the carriage is hired by a doctor as part of his necessary stock-in-trade, or the wagon is used to transport goods as a carrier's cart. We see therefore that the very same thing may be either Productive Capital or Lucrative

Capital, or Consumption Goods, according to the use made of it. Potatoes or corn or eggs are obviously Consumption Goods if they are eaten; but if they are kept for seed or hatching purposes they become Capital. More than this, the consumption goods turned out by one industry may be the raw material of another. Corn, for instance, when raised by the farmer may be at once consumed by his stock, but if the miller buys it to grind into flour it is his raw material, and he invests part of his circulating capital in purchasing it. The flour again becomes the raw material of the baker, who makes it into loaves. And all the stock-in-trade of an ordinary shop is part of the circulating capital until it is sold, and it must be sold at a price which will enable the stock to be replaced, for if it is being properly used capital is never consumed or destroyed, but perpetually renews itself.

Tools, ancient and modern.

But when all is said and done, the characteristic form in which true Productive Capital appears is Tools. When we glanced back through history and tried to picture the life of primitive man, and realise how the first wealth was accumulated, we saw at once that what was wanted was tools of some kind—a spade to dig with, or a boat to fish from. It is as true to-day as it was then, only the tools we now use are so complicated and costly that we hardly recognise them under that simple homely name. When we say tools, we instinctively think of our own indispensable box of carpentering tools, or gardening tools, which do so patently help us to produce. Yet all our railways, vast shipping, and plant of various kinds, are only more elaborate tools, too titanic to be used except

by large numbers of men working in co-operation, and too costly to be owned by separate individuals.

When we talk of Capital as being Productive, we must be careful to guard against one possible error, and remember always that without Labour no Capital can be either produced, or can itself produce anything whatsoever. It is, in fact, a tool, an instrument in the hand of Labour. Would it be true to reverse this statement, as some people in the past have been somewhat inclined to do, and say that after all Labour is a tool in the hand of Capital ? No, Labour is in a different position, for we saw that in the first instance it was able, and indeed compelled, to produce Wealth without Capital, and though it is quite true that in more highly developed stages of Industrial Evolution, Labour is helpless alone, and imperatively needs Capital, yet the claim can still be fairly made, and is made, that this is only present Labour drawing on past Labour for assistance. We see this easily enough if we reflect that all the machinery which is the typical form of Capital, has evidently been created and creates anew by the help of Labour, and could not have existed without it. This seems obvious, but it is not quite so obvious in the case of Lucrative Capital. Yet it is true here also. The money which the money-lender has to lend must have been earned originally by his own or some other person's effort. And though the income he derives from it may seem to be forthcoming without any labour—hence the jeer at idle capitalists—yet this is only correct so far as the personal labour of the present owner of the

Limitations of Capital.

Capital a Tool in the hand of Labour.

capital is concerned. For it is clear that the income which is paid for the use of it can ultimately only be created by the Labour of some one or other.

The Pedigree of Capital.

This almost seems as if we were belittling Capital, but this is very far from being our intention. To recognise its origin and limitations, its duties as well as its rights, is not to decry the vast importance of its function. On the contrary, we consider it an honourable pedigree for Capital that it can usually be traced to some honest labour by hand or by brain in the past, if not in the present. We cannot, unfortunately, say that the ownership of Capital was always decided in the same reputable manner, for there is no doubt that in the past Capital was often acquired, whether by nations or individuals, by quite unscrupulous methods of force or fraud. We have all heard of:

Its Ownership.

> "The good old rule, the ancient plan,
> That he should take who has the power,
> And he should keep who can!"

And we cannot say, alas! that these ancient methods have entirely disappeared from the world to-day. But whatever the origin of Capital or its ownership, there can be no question as to its importance. No industry can be carried on without it, and all increases of wealth are made possible by the existence of these stores of past wealth. No man alive to-day can support himself by his labour alone, without capital to arm him with tools and provide him with raw materials. How could the elaborate plant required by modern industry be produced except by the use of the accumulated

The Need for Capital.

earnings and savings of the past? How could the workers be supported during the period (often a long one) which elapses before their product can be marketed, unless there be Capital to pay wages in the meantime? How could even the most simple forms of labour be carried on without the help of some implements? It is not a question of "Crusoe economics," though Capital is, we saw, needed even in a desert island, but how much more in a crowded civilisation! Even a writer must have a pen and paper! Even a charwoman must have a scrubbing brush and soap! The pen and the brush are Fixed Capital, they aid many acts of production. The paper and the soap are Circulating Capital, they are consumed in a single act of production.

The War between Labour and Capital.

Many bitter things are said to-day about Capitalism, and the death-struggle between Labour and Capital. But let us distinguish. These amount really to criticisms—often, though not always, just and reasonable—on our present capitalistic system and the private ownership of Capital. They are, in fact, attacks on the private capitalist, and the unfair share of the joint product which he is alleged to have snatched, but not on Capital itself. The struggle is for an equitable division of the product. No one, indeed, outside a lunatic asylum supposes that under any industrial system whatsoever Capital in its true economic sense could ever be abolished, since it performs a necessary function in the production of wealth. If private capital formed by private saving is destroyed, then public capital formed by public saving must be provided instead. The third agent

may indeed be a secondary partner in one sense, but none the less an essential one. The so-called death-struggle could only end in mutual destruction, since neither Capital nor Labour could long survive the other.

Desirability of a better Balance of Power.

But though we are thus very far from attacking Capital *per se*, or derogating from its necessary services, yet it is only right to state plainly that nearly all men and women who think seriously on these matters are agreed that there must be changes, and some shifting of the balance of power as we find it in the present system, which has tended during the last century and more to concentrate practically all power in the hands of the third agent. Present conditions of Labour, and State control are already tending to alter these conditions.

CHAPTER VII

ENTERPRISE AND THE ENTERPRISER

Necessity of bringing the three Factors together.

A POINT that has been emphasised, perhaps to the verge of monotony, in the previous chapters, is that each of the three agents of production is powerless to produce wealth alone. In their union is strength. How then are they to be brought into effective co-operation? For, except in the simple case of the peasant proprietor who owns his own land and his own tools, and cultivates with the labour of his own body, it is extremely rare to find all three agents in the hands of a single person. One man owns land, but is hard up and cannot develop it. Another has capital, but is incapable of labour; while a third has neither land nor capital, but, perhaps, brilliant brains or skilful hands, or simply a vigorous bodily frame, capable of much labour.

The Service of the Enterpriser.

Now these three men, or groups of men, all need each other in order to develop their gifts to the best advantage, to create wealth and to obtain their reward. But in all probability they have no notion where to find each other! Some one must bring them together. To the man who performs this valuable co-ordinating

service the French have given the name of *Entrepreneur*. We might prefer to use an English word, but the literal translation, "Undertaker," seems hardly appropriate, owing to other associations of a quite different character which inseparably cling to it! The Americans have coined the word "Enterpriser," which is useful and descriptive, and may eventually supersede the French term which now holds the field. Indeed, we like it so well that we propose for the most part to make use of it in this volume.

What are the duties of an *entrepreneur* or enterpriser? What exactly is it that he undertakes? The reply can be given in just two words: Management and Risk; but we shall have to elaborate the answer and explain at a good deal greater length.

Double Function of the Enterpriser.

First, as to Management, which, it is important to note, may be in the hands of a single individual, but under modern conditions is more usually under the control of a group of men. These we are familiar with as the board of directors of any modern joint-stock company. Management includes much more than, probably, we are apt to imagine, if we think of the manager of an already going concern, who appears to be carrying on a smooth routine in a well-equipped, comfortable office. The enterpriser has to plan the business and build it up from its very foundations. He may not himself possess either land, capital, or labour in the ordinary sense of that word, only his business ability and organising powers, but these are invaluable. We know he must procure and bring together the three agents of production, but it is a

delicate matter to decide how much of each is required and can be used to the best advantage. If a curtailment or an extension of the business seems to be desirable—if more capital has to be borrowed, or more labour engaged, or a higher rate of wages paid—all these are questions vitally affecting the prosperity or failure of the whole enterprise, and they must be settled by the enterpriser. He must be thoroughly versed in markets, too, and know what facilities of transport are available, and what the supply of raw materials and of workers, and of housing accommodation for the latter will be, before he can decide where the land for his enterprise should be acquired. It will be seen that all this implies a great deal of knowledge and a very high order of judgment and ability, and we shall not be surprised to find that in cases where the enterpriser is not himself the employer, but gives his services in exchange for a salary, these services are valued very often at a very high figure. First-class powers of Management in this broad sense of the word are said to be amongst the rarest of gifts.

Management.

And then as to Risk. There are always three alternative prospects before an enterpriser. He may make a fortune, or a bare livelihood, or an utter failure, and in the last case he will in all probability be ruined. It is a big risk to run, alarming to timid persons, but if nobody will undertake it, the world must be the poorer by the loss of many enterprises which might have been of incalculable benefit to it. It is the function of the enterpriser to run that risk. He is the Captain of Industry in the true sense, no matter how small and

Risk.

humble his venture may be. He backs his brains and his luck, and his judgment, so to speak, and goes ahead. And success or failure largely depend on the calibre of his brains and judgment. If they are sound, then the luck seems to go with them as a rule, though sometimes there are exceptions to this satisfactory state of things. Naturally, since he is so important, the enterpriser expects to get a reward, but it comes last on the list of payments, as we shall see a little later.

The Enterpriser's Reward.

So far we have considered the function of the enterpriser on the side of Production. Now we must think of it on the side of Distribution, for he is a great distributor of wealth, in fact THE great Paymaster! Think of any flourishing place of business you happen to know, and all the payments which it involves. Rent to the owner of the leased land. Interest to the capitalist who advances the necessary money. Salaries to the managers and sub-managers, designers, clerks, and accountants. Wages to the great army of manual workers without whom nothing can be realised. Last of all comes the payment to the enterpriser himself for risk, namely, profit.

The Enterpriser's Function as a Distributor of Wealth.

If you succeeded in eliminating the enterpriser, as many people would like to do, thinking that thereby they would suppress an unnecessary middleman and effect an economy, you could not abolish his function as risk-taker without at the same time destroying a great deal of valuable enterprise. The State or the Municipality could no doubt take over

Can he be eliminated?

his functions as Manager and Paymaster—they already do so in many cases, and to a large extent, with varying success. But the industries which are best suited to national enterprise are just those which are least risky and most stable, and moreover those where some element of monopoly must almost necessarily enter in practice owing to their very nature. This is the case with railways, tramways, supply of gas and water, postal and telephonic communications, and so on. When we come to consider Competition and Monopoly we shall realise why such concerns as these cannot be regulated by free competition, and why some degree of monopoly is inevitable. But why do we say that it is this sort of business which, in this respect at least, is chiefly suited to national enterprise ? If we think for a minute we shall see that this is only a right and reasonable limitation, since all these State and Municipal enterprises must be paid for by the nation, that is to say, by the people, in the form of rates and taxes. If then the enterprises fail, or if they are not run so as to yield a reasonable profit which will allow for accidents and losses and for healthy expansion, the nation will be the loser. We can understand that the tax-payer would naturally object to being compulsorily involved in business of a speculative and risky character. Yet these businesses, if they succeeded, might add a great deal to the wealth of nations.

Possibilities of the State as Enterpriser.

Different Kinds of Enterprise.

It seems probable that nationalisation and municipalisation of industry may be largely developed and advantageously developed in cases in which the

supply of goods and services essential to citizens is concerned, and where their purity and efficiency are of primary national importance. But it seems, too, that there will still remain many types of business which will almost necessarily and desirably continue in private hands. This, of course, need not imply that the State might not have an ultimate power of control, both negative and positive, as to the conditions of employment of all three factors of production. It might very well decide, for instance, what forms of enterprise it approved of in the national interest, and discourage undesirable speculations, though such a power would need to be exercised with the greatest restraint and discretion, since opinions differ widely as to what is desirable, and minorities are so often right! Or it might control others, as it already does to some extent in the liquor trade and the sale of dangerous drugs, where its action is almost universally approved. Or again it might control and regulate the distribution of wealth to some degree by a limitation of dividends. Or it might enforce suitable conditions for Labour, both as to wages, hours, and environment. It does this already, and to an ever-increasing extent, as we see by the long list of Factory Acts and other legislation of a social kind, which gradually built up a sort of code in the nineteenth and twentieth centuries, in response to the growth of the social conscience. The interest of all citizens, and not of any one class, must clearly and necessarily be the object of the "Good State"—the State, that is, which aims at

State Control and Regulation of Private Enterprise.

Instances of State Action.

providing the conditions of the good life for all its members.

But that is another story. The point which it is sought to bring out in this chapter is that the Enterpriser performs an indispensable function under the present system of Industry, and that under any other system, even if he were himself eliminated, the functions he performs would have to be undertaken by others, viz. those of Management in the widest sense, and of Risk.

Essential character of the Enterpriser.

CHAPTER VIII

RENT—I

Now that we have briefly glanced at the Production of Wealth, let us turn and consider its Distribution. How, and by what machinery is Wealth distributed? It is by means of the rewards allotted to the different agents of production.

The Distribution of Wealth.

Since Land, Labour, Capital, and Management are all essential to production, as we saw they were, and not one of them can be dispensed with, it follows that they must all be paid. When anything is produced the first necessity is clearly the maintenance of the producers, because, if they are not maintained, obviously production will cease. So far there is no dispute. But there is always *more* than actual maintenance produced—a surplus in fact. It is the fair and right division of the whole product, including this surplus, which is the burning question of Industry to-day. What is a proper standard of maintenance? and what is a just division of the surplus value? How much should each agent of production receive as a proper payment for its

Maintenance.

Surplus Value.

The Division of the Product.

services? We cannot hope to solve that difficult problem here, but we can clear away some of the confusions which cumber the ground, and try to understand the nature of the different payments, and the reasons for them.

The Payment of Land.

As Land came first among the agents we will deal with its reward first. The payment or reward of Land or, more accurately, perhaps, the payment for its productivity, is called Rent.

Loose Use of the Word.

First of all we must notice that the word, like so many others, is very loosely used. Often when people speak of Rent, they mean a mixture of true economic rent and of payment for the use of Capital, which is not Rent at all, but Interest. A man says, for instance, that he pays so much Rent for his farm, but only part of that is really Rent, the rest is Interest on the Capital which has been sunk in farm-buildings, drainage, and so on.

Scarcity Rent.

Then again there is what is called "Scarcity Rent." This also is not true rent in the proper economic sense, for it represents a monopoly value. Some piece of land, owing to its position, may have an altogether unique value as a site for some particular purpose. The "rent" paid for it may be infinitely and disproportionately greater than that for another similar site close by. The point is that there is no alternative, and therefore the rent is the price of a monopoly. Professor Urwick used to instance the rents paid for Bond Street shops, because of the traditional unique advantages of Bond Street as a fashionable shopping centre, and the

scarcity of available sites there. But this is not what is meant by Rent proper.*

What then is true economic Rent? Bearing in mind the wide definition given to the word Land, including under it all Nature-Power and natural advantages of position, a very short and simple answer can be made. Rent, to quote Professor Urwick's definition, is the price paid by the users of Nature-Powers to the owners of them.

Definition of Rent.

In our chapter on Land we noticed certain peculiarities about Nature-Power; that it was free, and quite unconnected with any cost due to human effort; and that it had its limits and after a certain point was inexpansible. Now we must notice another characteristic, namely, the great inequality and capriciousness with which it is bestowed. Nature may be said to be full of partiality, favour and affection. It is easy enough to see that there are different qualities of Land, and that we can compare one quality with another and measure their respective advantages. That may seem a self-evident and unimportant platitude but on that simple and obvious fact all Rent depends. We said that Rent was the price paid for the use of Nature-Powers to the owners of them. But since some of these powers are better than others, people will naturally pay more for the use of the better qualities.

Rent depends on the different Qualities of Land.

Take an instance. If Farmer Jones' fields produce

* It can be argued that "Scarcity Rent" is really the essential rent, since Land of differential fertility commands rent because it is scarce.

wheat at the rate of three and a half quarters per acre, and Farmer Smith's at the rate of seven quarters per acre, clearly Smith's ground is worth much more than Jones', supposing, of course, that no more has been spent on cultivating it. You might naturally suppose at a cursory glance that it would be worth just twice as much, but the difference would be a vast deal greater than that. For, consider in the first place it must pay Farmer Jones to grow wheat, even though his land only produces at the rate of three and a half quarters per acre, otherwise, no doubt, he would cease to grow it and choose some other crop. That implies that he can produce wheat even on that quality of land, paying all the costs of labour, manures, seed etc., and yet make a fair margin of profit. But Farmer Smith with his land, which is twice as productive, will not have any greater costs of production than Farmer Jones, for that is our pre-supposition. All the extra three and a half quarters per acre will therefore be clear gain to him, and will not have to bear any share of the costs It may therefore quadruple the profit, or even more than that. This difference in value, whatever it may in fact be, will be very accurately reflected in the amount of rent paid to the landlord. As an instance of this, compare rent in some parts of Sussex, where it may be as low as twenty shillings an acre, with rent in the more fertile tracts of Lincoln, where it rises to one hundred shillings.

An Instance.

Wherever there is competition rent must inevitably be paid for all qualities of land over the worst. By the worst we mean to say land so poor that it will produce no surplus at all over the bare maintenance of

the cultivators. Such land is technically called "no-rent" land, but in England there is probably no land which is actually not rented at all, though the rent may be so low as to be almost nominal. The reason for this is that in a densely populated and highly developed country all land has a market value for some purpose or another. It may be useless for farming, yet valuable for building, or it may offer opportunities for sport of some kind, and therefore rent has to be paid for it.

No-rent Land.

Now admitting that rent is inevitable where there is competition for the use of the land, we ask next is it fair? It is clearly fair, for the payment is exactly in proportion to the value received. If there were no rent that would be really unfair, for some people would be given a great advantage over others for no reason at all. When people talk as if there were something essentially wrong and immoral about rent, it is due to misunderstanding. Rent is not an arbitrary thing—an imposition in every sense of the word as they appear to think—but a natural necessary result of two facts. The two elements which determine it are the difference in the quality of the land, and the scarcity of the best quality. Everybody naturally wishes for the best land, but there is not enough to go round, and rent ensures that the advantages are equalised. True, there are many social questions of the greatest difficulty and highest importance connected with this subject, but they are questions of the proper ownership of Nature-Power, not of the payment for it.

The Fairness of Rent.

Social Problems connected with Rent.

Questions of the expediency of public *versus* private ownership or control, or, as we said before, of the right division of the product, but not questions as to the necessity for Rent. If private ownership of Land were swept away to-morrow, and it were all owned by the nation, still Rent in some form or other you must have or you will deal most inequitably with the people who want the use of the land.

Inevitability of Rent.

If you doubt this, consider on what principle you could possibly decide that one should have better and another worse land. First come first served clearly involves no principle at all, and is simply a matter of accident or luck. To decide on the respective merits and claims of applicants would be an invidious, not to say impossible, task. Justice demands equality of advantage, as far as may be, to all users of the land, and the system of rent meets the demand.

Rent of Ability.

The principle of Rent applies not only to Land but to natural Human Powers, whenever these are above the average and produce a surplus value. Consider the value set upon good management, for instance, or upon any special natural talent or unusual skill. These things bring their owners extra payments above the normal rate of standard pay. That has been aptly called the Rent of their Ability. There is nothing wrong about it, and if it were disallowed it would be a great discouragement to desirable effort and energy. This, however, is better discused when we come to consider the payment of Labour. For the moment we will confine ourselves to Rent in the ordinary technical sense of the word, as applied to Nature-Power only.

CHAPTER IX

RENT—II

After the explanation of the nature of Rent given in our last chapter, a certain difficulty naturally presents itself. What is the use, it may be asked reasonably enough, of trying to obtain better rather than worse land, if the whole difference of profit is to be swept into the landlord's pocket? Any advantage or disadvantage in having a good or bad farm seems done away with, on our argument, from the farmer's point of view. Why should he care? Yet we know quite well that people do care very much what land they can obtain. How can this be accounted for if our theory is correct? Well, theoretically, under full unrestricted competition, the farmer *would* have to pay the *whole surplus value* in rent. That is what is meant by "rack-rent." But, as a matter of fact, competition never is really unrestricted, and other factors come in. There are individual preferences, and special requirements, and different advantages of site and position, either real or sentimental, which appeal to different would-be hirers. One man wants to settle in a particular district because he likes the scenery, or he thinks the climate suits him, or he was a boy there

Rack-Rent.

and remembers happy holidays, or perhaps because he has relations living there. Another may avoid an otherwise suitable holding for the very reason that his own or his wife's relatives are settled close at hand, and he likes them better at a little distance! All these subjective likes and dislikes tend to limit competition for the objective qualities of any special land, and prevent in practice the extortion of rack-rent.

Limits to Competition.

Then, again, one of the advantages of good land is not only that it produces more, but that it produces more easily, with less sweat and strain. If a landlord charges too high a rent, which would completely neutralise the advantage of the good land to the hirer, a man will choose to hire worse at a lower rate, and trust to making a profit by working harder. And natural capacity comes in too; one man can make an unexpected profit. He can make worse land pay better, so to speak; a good instance of Rent of Ability.

It is of the very essence of true Rent, unlike Scarcity, Monopoly Rent, that there is always an alternative. Land itself may, of course, be said to be a monopoly, and so it is in one sense, for it is limited in amount for certain purposes. But yet it is not an absolute monopoly, because less suitable kinds can, with more trouble, always be used. The chief thing then to remember about economic rent is that it is the price of a difference of value—the price paid for all the better qualities of Land over the worst. This is well brought out when economic rent is called, as it often is, "Differential Rent."

Differential Rent.

A very important question is: "Does Rent decide Price?" It is a claim often made. One hears it said that high prices of food, etc., are caused by the high rents charged for the land. Now this is not correct, as Ricardo, the great exponent of the Law of Rent, explained. It is putting the cart before the horse. The reverse is, in fact, the case. Rent does not determine Price, but Price, coupled with Scarcity of Supply, does determine Rent.

Rent and Price.

A little thought will convince us that this must be so. If prices are high, a given piece of land will produce much more than the maintenance of the workers, and more can be taken as Rent. If they are low, a less surplus will be produced, and, obviously, the rent which can be paid will also be lower. Landlords will have to lower their rents accordingly. They cannot insist on a high Rent irrespective of prices, neither can they regulate prices to suit themselves, for these depend on many causes beyond their control. Prices also have an effect on Rent in another way, they will affect the demand for land. The price which a farmer can get for his wheat and stock largely determines the amount of expense which he can afford to incur, and therefore the amount of land he will care to rent. This will clearly influence the amount of competition in the land market, and Rents will tend to rise or fall accordingly. We see then that Rent is the *Result* of Price, and not the *Cause* of it.

How one affects the other.

A curious point brought out by M. Gide, whom I have so often quoted, is that it follows from this that if all the landlords of the country made a "beau geste,"

and renounced their rents, it would not lower the price of bread by a penny! This seems so startling a conclusion that it is worth while examining the argument in detail.

If Rents were renounced?

Let us suppose the country badly needs more corn and the owner of some great tract of land, which has hitherto been used simply for pleasure purposes, now brings it into use for production. He may do this from various motives—because he is a good citizen, or because he is hard up and needs the rent, or because the laws of his country compel him, and will not suffer Nature-Powers to be wasted. This, in fact, was the attitude taken by our own Government in the late war, when the submarine peril threatened our overseas food supply. The land is then divided into plots and offered for hire. We will suppose that corn is worth at current prices eighty shillings a quarter. The worst plot on the estate will just produce it at that price—that is to say the costs of labour and capital will absorb the whole return, and nothing will be left over for rent. The best plot, on the other hand, will produce corn which only costs forty shillings a quarter to raise, and the gain will therefore be forty shillings, or fifty per cent. per quarter. The plots in between these two extremes vary as to the costs of production, and, as we have seen, the rents paid for them will vary likewise. Now if the landlord waives his claim to rent, what happens? He makes a present to each of his tenant farmers, not in proportion to any merits or needs of theirs, but based on their good or bad fortune in having obtained better or worse land. But, it may be said, will not the farmers whose expenses

are thus reduced, promptly reduce also the price of corn? They cannot, even if they wished to do so. For, we are assuming, the demand is equal to the whole supply; that is to say the country wants *all* the corn, and cannot do without the crops produced on the worst plot, which cost eighty shillings a quarter to produce. Now, as we shall see when we come to deal with competition, you cannot sell identical values of any kind, whether sacks of corn or anything else, in the same market at different prices. People will not buy on such terms, as you can easily realise if you imagine a row of loaves in a baker's shop being offered for sale to the different purchasers at different prices, on the ground that some had cost more than others to produce. It follows therefore that the price which must be paid for all corn in the market is necessarily fixed by the price of the sack which it cost most to raise, so long as that sack is needed and demanded.

Identical Values command the same Prices in the same Market.

To prevent misunderstanding it may be well to point out that as a matter of fact no nation would be likely to tolerate such a situation as has here been imagined, with equanimity. The people would probably insist on Government devising some method to enable the whole country and not merely the tenant farmers to profit by the landlords' unparalleled generosity. This might be done, for instance, by Government buying up all the corn at a fixed margin of profit over costs of production, and retailing it at a uniform average rate. But that is beside the point. M. Gide is not raising a question of practical politics, but giving a dramatic example, which brings out very effectively the point

we have been trying to make clear, namely, that it is Rent which depends upon Price, and not Price which depends upon Rent.

It may reasonably be asked whether there cannot and ought not to be any restriction of rent? Nothing to prevent the extortion of exorbitant rents, except the natural play of economic forces, which do not always act rapidly enough to remedy legitimate grievances? A distinction might well be drawn here between Natural Rent, true differential rent on the one side, with which it would probably be very difficult to interfere either justly or effectively, and Scarcity Rent, Site Values, on the other. The increase of urban sites values is so clearly a case of unearned increment—value, that is to say, which is due chiefly or entirely to communal factors and not to any individual industry or skill—that a strong case can be made out for restriction of rent with regard to it. Social not individual advantage should be the prime consideration in apportioning value socially created. The practical difficulties are, however, considerable, and the Rent Restrictions Act during the war, though probably necessary and desirable to prevent worse things, still had some very embarrassing consequences.

Possibility of Restriction of Rent.

The Case of Site Values in Towns.

Unearned Increment.

CHAPTER X

INTEREST

WHAT is the exact meaning of Interest? Are Interest and Profit the same thing? And, if not, what is the difference? We remember our definition of Capital, that it was Wealth applied to further Production, and we noticed at the time how people often confused the proper use of terms. We saw, for instance, that they frequently criticised Capital, when what they really meant to do was to criticise the private ownership of Capital, or the imperfect distribution of Capital, or, perhaps, to abuse the capitalist! In the same way Interest and Profit are often confused, and the words used as if they were identical. (We shall note in the next chapter the general use made in business and commerce of the term Profit.) But in reality they are separate payments, and in the Science of Economics they are recognised as such, and should be discussed and studied separately. Interest is the reward paid to Capital, and Profit is the reward paid to the Enterpriser.

Interest and Profit.

Definitions.

Now, why is Interest paid to Capital? And is it right and just that it should be so paid? These are

two very different questions, and the first is easily answered. You pay interest as you do many other things not wholly congenial, because you have to. You will not be able to borrow capital unless you do so, any more than you can get land without paying rent, or labour without paying wages.

The Reason for Interest.

But the second question has been a difficulty and perplexity to many men in all ages. The question, Is it right ? Most of the great law-givers and moralists of ancient times said "No." Moses, Aristotle, Cato, were all against it. Mohammed condemned it root and branch, and no true Mussulman will touch it if he is loyal to his religious convictions. The Christian Church disapproved of it—it was prohibited by custom, and at last formally forbidden to Christians. Jews continued the practice towards Gentiles, and supplied a need, but the *Merchant of Venice* shows us clearly what popular feeling on the subject was, and, indeed, it has continued to some extent to the present day. Aristotle declared that the proper use of money was as a means of exchange, but not for increase, and that this breeding of money from money was unnatural—a monstrous birth. Yet in spite of all the anathemas of philosophers and saints, Interest has always persisted. Is this due to the natural perversity and wickedness of human beings, greedy for gain and sinning against the light, or is there some inherent justice and necessity about interest as we saw there was about rent ? And if so, why did these great men fail to see it ?

Is Interest morally right ?

The old Answer.

One thing to notice is the difference of character and purpose of the loan at interest in ancient and modern times, a difference which would naturally influence the general judgment on it. What did people borrow money from the Jews for in old days? Practically always to spend on Consumption Goods of some kind or other. It might be for the necessaries of life in the case of the very poor, or to enable some impecunious young squire to go to London and cut a dash at Court, or, perhaps, to equip a knight for the Crusades, or for a tournament. In all these cases the loan had no productive character, and when economists said it was barren and could give no increase, they were judging fairly accurately from their own experience. Capital in our sense was practically unknown. To-day loans are made, and money is borrowed in the main to aid production, and our point of view is consequently different. The old moralists thought interest a discreditable thing, an extortion of usurers, bloodsuckers, who did nothing to earn a livelihood, but battened on the follies and necessities of others. We think of it as a plain business transaction conducted to our advantage by bankers and other highly respectable persons, and regard the principle of interest as entirely legitimate. At least, most people do. If they all did there would be little need for this part of our chapter; but everybody does not hold this view even now There are still people who maintain that all interest is really exploitation, and consists in an unfair advantage taken by those

Different Classes of Loan.

For Production or Consumption.

Modern Point of View.

The Exploitation Theory.

who have something over those who have not, and who need it. It is still worth while, therefore, to consider the arguments in the case carefully.

The Use Theory.

Suppose you lend a person £100, as you might lend him an axe or a hammer. If he returns it to you punctually at the end of the specified time in good order, is not that enough? say the people who believe in the exploitation theory. Why, except out of greed and iniquity, should anything more be required? The answer is that it is not enough. The borrower must not only return the loan, be it hammer or money, intact, but he must also pay for the use of it. Is not this fair? Surely, for you have deprived yourself of the advantage of its use in order to lend it to him. This is called the "Use" theory of interest, and it seems sufficient and satisfactory to most people. But some say no, if you lend a thing the use of it is implied and included, and that it is impossible to distinguish between a thing and its use. They find what is called the "Time" theory more conclusive and convincing. It is really very similar, but perhaps better and clearer.

The Time Theory.

The Time theory is based on the contention that time has an actual value, which few people will deny, and that this value can be and must be reckoned. A £100 now is not the same thing as a £100 a year hence. It is actually worth more. How is this? A present value is always greater than a future one; it is more certain and secure, a point which is brought out by the proverb that a bird in the hand is worth two in

the bush. Ask a schoolboy whether he would rather have an extra holiday to-morrow, or one a year hence! Offer a child a box of chocolates now or next Christmas. Their instinctive sense of values is quite sound. True, they may decide to prefer the deferred value, but it will be because some compensating value is attached to it. If the holiday is postponed it may be combined with a visit to town and a theatre, or something of the sort. This is the equivalent of the interest on the £100; it acts as an inducement to forego an immediate advantage. But, on the other hand, life is uncertain. A year hence you may be ill and unable to enjoy your holiday or your £100, or perhaps the opportunity of making use of it may have passed away. If the money is wanted for education, for instance, it is obvious that time is a very vital element in the value of the sum. It is wanted now, at once, while the student is the right age, and a year hence its value may be greatly lessened. The same is often true when it is wanted not for education, but for some other form of productive investment. To get it at the right moment is essential, and the saying that he gives twice who gives quickly is equally true of lending.

Influence of Time on Value.

The Time theory seems to give us a conclusive argument in justification of Interest. It is clearly right—in fact, merely honest—that at the end of the year or other specified time for which the loan was made, an *equal value* should be returned to the lender. Every one admits that! But if £100 was lent and only

The Moral Justification.

£100 is returned at the end of the time, then, though it is the same *sum*, yet the same *value* has not been returned, for, as we saw, the value of the £100 was greater at the earlier date.

The Price of Time.

Interest, indeed, from this point of view is not so much the price of Use, as the price of Time; the price, that is to say, of the difference of value in having the money a year sooner or later. The rate of interest will depend on what that difference of value is reckoned to be.

The Abstinence Theory. Its Truth and the Objections to it.

The Abstinence Theory of Interest, as it is called, the theory, that is to say, that interest is paid to the capitalist as a reward for abstaining from consuming his wealth, and for saving and lending it instead, is now somewhat out of favour, though at one time it was much in vogue. It has, of course, a solid element of truth in it, as one readily sees in the case of a worker who laboriously accumulates his savings and invests them rather than spends them, so as to be independent and provided for in his old age, or to provide for others. But as by far the largest amount of money invested at interest is naturally lent by wealthy persons, who have such large incomes that they could not possibly spend them on consumption goods, it seems repulsive and hypocritical to describe their action in letting their wealth increase almost automatically and inevitably, as "Abstinence"—a word which certainly suggests self-denial and virtue and moral self-control. It has, in fact, been described as the "grim jest of the capitalists," and is not unnaturally resented

by those less fortunately placed for such easy abstaining.*

Whichever theory we prefer, however, and whatever words we choose, we come to the conclusion that *interest as much as rent is just as well as necessary*, since it is payment for a value received.

Justice of Interest.

A question of more practical importance is, what is a fair rate of interest? What is a just return to Capital for its share in production? In practice the rate of interest is decided, like the price of any other commodity, by Supply and Demand, in other words, by Competition. If there is an abundant supply of Capital, and many lenders are offering it on the market, the rate of interest will fall. If, on the contrary, there is not enough capital to meet the needs of would-be borrowers, clearly the rate will rise.

How is the Rate of Interest fixed?

It seems to follow from this that at any given time there must be one and the same rate of Interest in the money market, just as we noticed in our chapter on Rent that there must be one price for identical loaves of bread in the same market, no matter what it had cost to produce them. Is this as a matter of fact true about interest? It is true. And yet our experience seems to say that it is certainly false, for we have only to glance at the City sheet of any newspaper to see that different rates of interest are offered at the same time by different companies. But this

Identical Rates of Interest in in the same Market.

* In modern industry the more important part of saving is impersonal, that is to say it takes place not by individual effort or abstinence but by the accumulation of reserves by joint-stock companies.

is only a seeming, not a real, contradiction; it is due to the different nature of the investments offered.

M. Gide's Distinction. The two Elements in Interest.

They are *not* identical, as we assumed the loaves of bread were. There is a difference in the degree of risk incurred in the enterprise for which the money is required, and in the character and solvency of the borrower. There is an old saw that high interest and low security go hand in hand. It is natural and inevitable. If I lend my money to a person who can afford substantial guarantees, I am willing to accept a lower reward than if I lend to some one in whom I have no great confidence. With the latter I *may* lose my money altogether, and I exact a higher rate of payment to compensate me against that possible loss. M. Gide points out that there are thus really two elements in interest: first, true interest, *i.e.* the price paid for the right to use the capital; and, second, "an insurance premium against the risk of loss." The first, as he says, is always the same for all loans in the same market and on the same date—the second varies with the character of each loan.

A question often asked is whether dividends are Interest or Profit. The answer is that they can be

Dividends.

either, but are more usually a mixture of both, and that sometimes one element and sometimes the other predominates. We saw that different classes of investment are offered by different companies at different rates. There are also different classes offered by the same company accord-

Debentures.

ing to the proportion of risk which the shareholder assumes. Debentures, for instance, are in many cases guaranteed and fully

secured. Their claim for payment has priority over all others, and ordinarily speaking, no element of risk enters into them. When this is so they are paid at the exact market rate for the use of Capital. This is true Interest. If debentures are offered at a higher than the normal rate it is safe to assume that the security is less satisfactory; in fact, the insurance premium idea comes in again.

Ordinary Shares.

Ordinary Shares, as they are called, run all the risks of the enterprise; they may realise nothing at all or a very large dividend. Here everything above the market rate of interest is Profit. The Ordinary shareholder is, in fact, one of the *Enterprisers;* he is a partner in the business, though a sleeping one.

Preference Shares.

Preference Shares run a risk of non-payment if the company fails; their claim ranks after debentures, and they are therefore paid more highly than debentures. Unlike Ordinary Shares, however, they are paid at a fixed rate, which does not vary and increase as the fortunes of the company go up. But they do not run so much risk, for they must be paid before the Ordinary shareholders have any claim. They are a mixture of Interest and Profit in which, as a rule, the interest element predominates.

The distinction between the two will, however, be clearer when we have read the next chapter, which deals with Profit.

CHAPTER XI.

PROFIT—I

We turn now to a payment which is far more controversial in modern times than Interest—namely, Profit; the reward, that is to say, of Enterprise, the payment of the Enterpriser.

What is Profit? That seems easy enough to answer. It is the difference between what it costs you to produce an article and the price you can get for it. Subtract your costs of production from your selling price—an easy piece of arithmetic!—and the result is your profit.

How Profit is calculated.

Quite so, but what are your costs of production? That is not so simple as perhaps it seems. Of course, if you take the instance of a man working entirely on his own account, with all the factors of production united in his own person, the problem is simplified. Take the peasant proprietor, for instance, whose peculiar position we glanced at once before. He may own his own land, supply his own labour, provide the necessary capital out of his own savings, and market his own product. It does not much matter how he names and subdivides his returns, since they are all made to one and the same person, namely, himself.

The Case of the Peasant Proprietor.

If at the end of the year he has more than he started with, he is satisfied that he has made a profit, and if otherwise, a loss.

But this is a rare case in Great Britain,* and even so it is a very rough unsatisfactory way of keeping accounts and estimating true results. He might find, if he worked it out, that it would have paid him better to have invested his savings in some one else's business, and hired out his labour for wages; though to be sure he would not then have had the pleasure of being his own master, which counts for something in life, especially with bold spirits.

The Importance of Accounts.

Take a much more common instance, a man starting business with a little capital of his own, but not sufficient. He intends to manage the new business himself, to borrow the extra capital he needs, rent land and buildings, and hire labour. He is thus, though perhaps in a small way, a very typical Enterpriser. His profit or loss will be the difference between his incomings and outgoings. But how, when he makes his estimates, will he reckon his expenses? What will his outgoings be?

A typical Enterpriser.

Not only the payments he makes to others, but those due to himself for the various agents of production he supplies, must enter into the account. For clearly it makes no difference to the business, and does not interest the accountant who audits the books, what

The Costs of Production.

* Although the peasant proprietor is a rare case in Great Britain, he is a very familiar figure in many other countries, and, taking the world as a whole, is probably the commonest case.

individuals have provided the necessary things. Interest on his own capital, then, as well as on the borrowed capital, must be set down, and a salary for his own labour as manager, as well as the salaries to his sub-managers and clerks, and the wages to his manual workers. The cost of raw materials, of lighting and heating his premises, of power, if he uses power-driven machinery, as well as rent, rates, and taxes must all be included. More than this, there must be a Depreciation Fund to cover the gradual wearing of the plant in which part of his Capital is invested, and renew it when required. It is only when all these payments have been made that real " Profit " begins, the reward, that is to say, to the Enterpriser, not for his management, which, as we saw, is counted, or should be counted, among the costs of production, but for the risks of enterprise.

Commercial Use of the word Profit.

Now, at this point, for fear of confusion and misunderstanding, it is right to point out that in ordinary industrial and commercial life the term Profit is frequently used in a much wider, more elastic sense, and the distinction which the economist makes between Profit and Interest is not observed. If a business has paid all its costs of production, including a fair return on its invested capital, that business is said to have made a Profit. Interest and Profit are, in fact, lumped together,* and the reason for this is plain enough. It is because, as we noticed at the end of the last chapter when we considered the

* Interest and Profit are not lumped together in the case of Debentures, the payment of which is reckoned separately in all businesses, and classed properly as Interest. See pp. 65, 72, and 73.

dividend of ordinary shareholders, the people who provide the capital are in point of fact also the people who undertake the risks of the enterprise. That is to say, they are *Enterprisers* as well as Capitalists, and take the payments due to both factors of production. It may be said, then, why insist on an academic verbal distinction which plain business men do not in practice recognise! It is not, however, desirable that these two payments, which are essentially different, should be confused, if only in the interests of clear thinking when the morality of high profits is being discussed. A loose, inaccurate use of language, though it may make no difference in a given case where the circumstances are well understood, is very apt to lead to inaccurate thinking sooner or later. It is an undoubted fact also that the most intelligent leaders of Labour are beginning to draw a clear line of division between Interest and Profits, and to shape their arguments accordingly.

Objections to loose Use of the Word.

To return then to Profit in its strict economic meaning, it is clear that if it were not for this extra payment for risk, there would be no financial inducement to private enterprise. There might, no doubt, be the attraction, as in the case of the peasant farmer, of independence, and also the sense of adventure. These are the lures which private independent business holds out. They appeal very strongly to the English temperament, though less so, it is said, to the French. But, practically speaking, it is the hope of fortune which is the chief attraction to the Enterpriser. From a business point of view, if a man (or

Need for the Stimulus of Profit.

woman) can earn as much for his services and the use of his capital in some one else's employment, with perfect security and absence of responsibility and the anxieties which it brings, he will be foolish to take the risk and trouble of setting up a new business of his own. What induces him in nine cases out of ten to take this extra risk and trouble, is the hope and expectation of an extra reward, uncertain indeed, but, if he wins it, possibly a rich one. That is his Profit. It may be argued that many companies do, in fact, accept a bare return on their capital, or even pocket a loss. Certainly that is so, but it is because they hope for better times. If there were no chance of anything beyond the strict market rate of interest they would not so invest their money.

Industrial Battle round Profit.

Now it may appear strange that round this question of Profit, which seems on the face of it fair and reasonable enough, the fiercest industrial battle rages. But so it is. The very ideas of private profit and of production for gain at all, stink in the nostrils of many people to-day. You may call them Socialists or Bolshevists, or what you please, but abuse answers no arguments. Many of them are extremely able people, and they are not all by any means wild dreamers. They have to be reckoned with, and their objections understood and, if possible, met. We shall realise, perhaps, a little of what they

Profit and Profiteering.

feel about profit if we recall what we ourselves felt about some very gross case of profiteering. There is probably nothing which excited such bitter feeling and enmity on the part of Labour against Capital, and so accentuated

class suspicion and antagonism, as some of the proved cases of war profiteering, where men took advantage of the nation's extremity to extort an undue and excessive dividend. But that, you may protest, is a very different thing; that is sheer robbery and exploitation. Those are the exact words which Marxian Socialists apply to all profits.

Karl Marx and Marxian Socialism.

To understand how they can reach and hold this point of view, it is necessary to examine, though it can only be in a very brief and limited way, the economic theories of their great master, Karl Marx. He was a remarkable man who lived and wrote brilliantly during the middle and latter part of the nineteenth century. The influence of his writings on socialist thought, and, indeed, on all the thought of his time, even that which was most antagonistic to his own, was profound. And it continues to this day, in spite of certain fatal flaws and fallacies in his arguments which have been often pointed out and which vitiate all his conclusions. We must try and explain his theory of value very briefly and very simply here.

CHAPTER XII

PROFIT—II

MARX was a great economic historian, and his most important theory was his "Materialistic Conception of History." He also expounded the Law of the Concentration of Capital, and the doctrine of the Class War. But with all this we are not here directly concerned. What we have to consider is the theory which, though not originated by Marx, was adopted by him in the first part of his great work *Kapital*, and is largely identified with his name; the theory that all value is due to labour. It is called the "Labour Theory of Value."

The Labour Theory of Value.

Marx saw as clearly as we have seen that the value of a finished article is greater than that of the raw material which went to produce it. It exchanged for more; its price was greater. What has happened? he asks. What has been added to cause this increase in value? And he answers that labour has been put into it. If a thing has taken eight hours to make, then, he says, it is worth eight hours' labour, that is to say it will

* See Marx's *Kapital*, Croce's book on Marx, Bertrand Russell's *Roads to Freedom* (chap. i), Professor Nicholson's *Revival of Marxism*, and M. Gide's chapters dealing with the subject in his *Political Economy*. Professor Scott gives an admirably lucid account of the Labour Theory of Value in his little book, *Karl Marx on Value*.

exchange for other products in which eight hours' labour is embodied. Yet this, admittedly, is not what the labourer is paid in wages. Wages, on the contrary, says Marx, tend always to be the price which will pay for the maintenance of the worker and his family.* But, as we saw ourselves, more is always produced than will suffice for that bare maintenance. A man may produce in half a day's work, or less, enough to provide for this, and all the rest produced is what Marx calls "Surplus Value." He argues that in fact the workman is paid only for that fraction of his labour which is necessary for his maintenance, and all the rest of his day's work is simply unpaid Labour. Is not this robbery? Value is simply "labour crystallised." The capitalist employer buys Labour cheap, and sells its product dear, and he sweeps the fruits into his own pocket, though they were created by Labour, and in equity belong to Labour.

Surplus Value.

Now, of course, if this is true, Marx and his followers are quite correct in saying that Profit is Theft and Exploitation. And Marx is so eloquent, and it is so obvious that Labour certainly has something to do with the creation of value, that people think vaguely that there must be truth in the theory; not only those who wish it to

Is Profit Exploitation?

* This statement with regard to wages is certainly not true to-day in fact, whatever may be the theoretic "tendency." Wages are not (except in sweated industries, in which the sweating is fortunately rapidly becoming exterminated through the action of the Trade Boards) fixed on lines of bare maintenance, but according to the prevailing standard of life, which varies in different occupations and according to different grades of skill. See also chapters on Wages, and Trade Unions, and Social Reform.

be true, but also those who are afraid it may be true.

But facts are stubborn things, and close examination of an impartial, careful kind has shown that they cannot be made to tally with Marx's interesting and suggestive but misleading theory. If he were correct certain things must follow which do not follow. Clearly a thing that has taken twenty hours to make must be worth twice as much—will sell or exchange for twice as much—as one that has taken only ten hours. But we know that this is not the case. We do not mean merely the obvious fact that bad work, clumsy work, stupid work, cannot be worth as much as good work, for, if it were, we should be in the curious position of claiming that the longer an unskilful or dilatory worker lingered over his job, the greater the value he added to his product. Marx was no fool, and carefully guarded against this misconception of his idea, saying it was, of course, only what he called "socially necessary work" which counted and determined value, not unnecessary, wasteful, bungling work. It may truly be remarked that in practice it would be very difficult to make these distinctions, but let that pass. Even so the theory will not stand the test of experience. We have tried in these pages to put forward another theory of value, which we believe to be the true one. We suggest that, as M. Gide says, there is not a one and only cause of Value. Value is determined by two things, *i.e.* by the Costs of Production and by Demand.

Failure of Marx's Theory to tally with the Facts.

Two Causes of Value.

If a thing is not wanted, or is less wanted, or

ceases to be wanted, it does not matter how much skilled and industrious labour has been devoted to it, it will have less or no exchange value, as the case may be. A coat that for some reason fails to please the public taste, however well and carefully it may be made, will not sell, or will sell at a low price, that may not even pay cost of production. The same is true of a picture or a book. Remember we are not talking of moral values or artistic values but of exchangeable values—not of what we wish, or of what perhaps should be, but of what is. A certain book may be of priceless moral value, and the costs of its production may be no more than those of the silliest novel of the season, yet the latter may be a more valuable commercial property. Even if the moral and artistic value of two works are the same, and the costs of production are equal, and the same amount of labour has gone to each, still if the subject of one appeals to a large circle of readers and that of the other to a limited one, their value will not be the same.

Demand, based on Utility.

Moral and Exchangeable Values.

But, granting the Demand as a necessary condition of any value, then the Costs of Production certainly are a chief factor in determining the selling price, which must provide for these and leave a margin over. And Marx argues that this margin, often a very large one, belongs to Labour which created it, and is fraudulently taken away by others. But, we ask again, even apart from the influence of the demand on the value, is Marx's claim that Labour and Labour only creates it, a true one?

Costs of Production.

Perhaps it is true if we mean all Labour, past and present, dead and alive, because we admitted before that all Capital, if you go back far enough, must have been formed originally by Labour co-operating with Natural Forces. But it is not true if we mean that living Labour has created all the value and should reap all the reward.* If value were indeed created exclusively by Labour, as Professor Scott points out, then the margin of Profit would follow Labour, that is to say it would be greater or less in accordance with the amount of Labour employed. But, in fact, it does not do so; it varies with the whole amount of Capital employed, part only of which is spent on Labour, and regardless of how large or small a fraction of the whole this part may be.

The Fallacy.

The fact seems to be that Capital and Labour are both necessary to the creation of Wealth out of the raw materials provided by Land or Nature-Power, and that it is useless to try and fix the exact amount which each contributes. Professor Marshall expressed it neatly when he said that it was like asking

Capital and Labour equally essential.

* This argument that Capital is only crystallised Labour, and that *therefore* all payments due to it are really due to Labour, seems to land one in a singular position, for it suggests that the reward for certain labour shall be taken and given to other labourers, which is neither just nor expedient. The question here is really one of the Laws of Inheritance and Property. Society can and does make its own conditions as to the terms of ownership, that is to say the terms on which it guarantees and protects property, and it can and should modify them as found best in the equitable interests of all. It may well be that some modifications are desirable. But some power of not only enjoying but bequeathing the fruits of a man's labours to his natural or chosen heirs is generally recognised as essential to the production of Wealth.

whether it was the upper or lower blade of a pair of scissors that cut!

The Position of Profits to-day.

We conclude, then, that it is not Profit which is wrong, but undue extortionate Profits, which are an injury to the consuming public, or an unfair division of the profits which is an injury to the producing workers. No agent should be paid more than is necessary to evoke its best powers. There is no need to have unlimited Profit to induce Enterprise, and the whole Profit need not go to the *Enterprisers*. As a matter of fact, it does not do so to-day. In theory, no doubt, under the Capitalist system the whole surplus is the Enterpriser's share, and its amount is only regulated by the natural action of Competition, but in practice this is no longer the case. Not only does the whole trend of legislation modify the situation, claiming through taxation an increasingly large share of the surplus value for the community, but also the movement for raising the standard of life for all citizens necessarily forces up wages far above the level of maintenance, and reduces profits correspondingly. This is, in our view, quite right, and greatly to be desired, so long as it is not pushed to the point of destroying the whole margin of Profit, which induces and enables the Enterpriser to continue producing.

Standards of Value.

To pile up high profits at the cost of your fellow citizens who help to make them, is certainly an unworthy, ungentlemanly procedure—what schoolboys call a caddish, low-down trick. But it must be remembered that society is not wholly guiltless of the sins of those who do such things. So long as our standards of

value are so material that we appraise a man's worth and importance and give him place and power, according to the size of the fortune he has made and regardless of how he has made it, rather than by the value of the services which he has rendered to his Community, so long will the temptation remain strong to get rich quick at all costs. It is not only for the sake of the material rewards, but in order that all men may speak well of him. It is natural that men value the good opinion of their society.

Public Opinion.

Social Responsibility.

The ideal of production for service and not primarily for private gain is a very noble one, and to the noblest minds it will always appeal.* But there is no more reason why the whole surplus value should go to Labour than that it should all go to Capital and Enterprise. If profit is restrained to the amount of a reasonable payment for the risks which the Enterpriser undertakes, and which it appears to be to the advantage of the community that he should undertake, there seems no moral ground for condemning this payment rather than any of the other payments which reward production and distribute wealth.

A just Profit.

Even that most interesting social experiment, the Building Guild, after allowing for all the costs of production in the full sense in which we have defined them, including a fixed rate of interest on capital and payment for management, depreciation, etc., reckons to make a margin of profit. It proposes to devote this to the

An interesting Experiment.

* See Mr. Tawney's book, *The Acquisitive Society*.

expansion of the trade, the lowering of prices, and schemes for the welfare of the workers. In this case the risks are not undertaken by any one employer, but by the whole Guild, consequently the profits naturally go to them to dispose of as they think fit. It is a form of co-operative production, and all the workers are in a sense also the owners and *entrepreneurs*, or *Enterprisers*.

The Service of the whole Community.

This is not the place to discuss the merits and difficulties of such a scheme, but it seems that fundamentally the question is not one of the rightness or wrongness of profits, which are indeed necessary if production is to continue, but of the best systems of profit-sharing, not only as between the various classes of producers, but also as between them and the consumers. The service of the Community should be the supreme motive, as Ruskin taught us long ago, whatever the nature of the service may be, whether military, educational, industrial, or commercial. We are still unhappily a long way from this ideal being generally accepted.

CHAPTER XIII

WAGES—I

IF we had taken Wages in the usual, and as we think in the correct, order of precedence, they should have come before either Interest or Profit. We have put them last not because we belittle their importance, but because we think them of such supreme importance that we wish to deal with them unharassed by the feeling that there are other claimants waiting to address the court. All the other agents of production have now had a hearing, we hope a fair hearing though a brief one, and we can give our undivided attention to Labour.

The Order of Precedence.

What are Wages? Broadly speaking, of course, they are the reward or payment of Labour, but that is too wide and vague a definition to be useful. It would include almost all payments of any kind—the proceeds of the sale of any article, or the fees paid to a doctor or lawyer, for they all imply labour. But this is not what is meant by the term wages. Wages do not include the return for labour made to people working on their own account, which as we have seen is a compound payment that can be analysed and separated into its constituent parts. Neither do

The Meaning of Wages.

wages include the fees to professional people, because they are dealing directly with the consumers, the public, selling them a service, and are not working under an employer. Wages have nothing to do, be it noted, with the amount, large or small, that is paid. A manager receiving £5,000 a year is a wage-earner, just as much as the charwoman who gets 8*d.* or 10*d.* an hour for cleaning his office.*

Definition of the Term.

The fact that each is working (not for himself on his own account, like a doctor, but for hire) for an employer, whether a company or a single individual, seems the important point, and it is certainly an essential part of any definition of Wages. Then, too, the rate of the payment must be fixed and stipulated, otherwise it will not be wages but a share of the profits. And wages need not necessarily be payment for producing things for profit in the ordinary sense at all, for such a definition would exclude wages for domestic service. Here there is no production for profit, yet there is production, for we saw in an earlier chapter that all work is productive work. What do domestic servants produce ? If we wished to be cynical we might be tempted to say, in a moment of exasperation, friction and discomfort! But speaking soberly, if they are efficient they produce utilities, for they render services that have a market value, at stipulated rates, and working under an employer. That is probably the best definition of a wage-earner that can be arrived at.

Another practical point to remember in con-

* The popular distinction between wages and other forms of payment for work is a social rather than an economic distinction.

sidering the productiveness of domestic servants is that they not only satisfy a want, but also liberate other workers, and enable them to produce goods and render services to society which they would otherwise be unable to do. Just as in the war those who could not themselves serve or make munitions or nurse, were asked to release a man or woman who could give these services by taking over their other work. Consider how much value might be lost to the nations if some of their most constructive brains had to spend much of their time and energy in cooking meals and cleaning rooms. One work is as honourable as another, but the principles of substitution and specialisation come into play. And as in the case of nations so with individuals, it is best for wealth that each should produce what he is most fitted for "by Nature and by Nurture," as Professor Graham Wallas would say. In that way only is the greatest value produced, whether it is material or on a higher plane.

Substitution and Specialisation.

As things are at present in modern industry, Wages are the recognised method of paying Labour, though they are not the only possible one. This is the payment which of all those that reward production, most keenly interests the social reformer. The supreme question of the day would seem to be: What is the Just Wage? The curious thing is not the general burning interest felt in the matter, but the fact that it is so comparatively recent! The whole attitude regarding it has changed.*

Question of the Day: the Just Wage?

* There is, of course, this difficulty in using such words as "fair" or "just" with regard to the distribution of wealth,

The old question was, what could Labour exist on? What was the lowest price you could get it for?

The new question is what *ought* Labour to get? and what is the most, not the least, that can be paid to it without destroying Industry, and so causing production to cease?

The Old and the New Attitudes towards it.

The old idea was that Labour was a commodity like any other commodity, to be bought in the cheapest and sold in the dearest market.

The new idea is that Labour is a commodity unlike any other commodity, because it cannot be separated from the living body and brain and spirit of the human being who sells it.

Formerly the general belief was that Wages were settled by natural laws. The Wage Fund Theory and the Iron Law of Wages are explained in a later chapter. It is enough here to notice that they assumed Wages were paid out of Capital in a fixed

that they suggest a common standard and general agreement as to what is justice, which as a society we do not possess. For this reason some people would deprecate the use of such words at all in dealing with economic questions. Yet to rule them out in a book dealing with social economics would seem to be barely possible, and, even if possible, more harmful than any risk of confusion arising from their use. Vague and imperfect as Society's common conception of Justice and Fair Play may be, it is yet not true to suggest that they have none which can be appealed to. There is a very definite recognition that some things are unfair. As soon as public attention is called to them they are pronounced intolerable and condemned, and ardent campaigns for the reformation of abuses are started. What would seem to be urgently required is a greater knowledge of facts and their quiet examination without prejudice. From this would come a steady raising of standards, and enlargement of the list of things which just people will not do or acquiesce in.

proportion, and that they could never rise permanently above subsistence level.

Wages paid out of Product.

Modern economists, on the contrary, demonstrate that Wages are paid ultimately not out of Capital but out of Product, and that Wages can and do vary with the amount of the product, and by a different division of the product.

Competition.

The old idea was that fluctuations in Wages were entirely regulated by competition—by the unrestricted play of Supply and Demand.

The Standard of Life.

The new idea, or indeed the new fact, is that Labour does not start out in the market unprotected, to bargain for a wage. It has a bulwark now against the relentless pressure of uncontrolled competition. The work of the Unions has won for it a standard of living. More and more the State interferes to control the conditions and payment of Labour, and to enforce a national minimum below which no man or woman may be employed whatever the competition may be.

Regulation of Wages.

To call this a new idea is misleading in one way, for it is rather the resurrection of an old idea. Wages in England were regulated, for good or evil, by Statutes of Labourers, conditions of Apprenticeship, etc., right down to the time of the Industrial Revolution, when the theory of free contract and *laissez-faire* began to prevail. As the evils of unrestricted competition, leading to the disgrace and horrors of the sweated trades, began to make themselves felt, the conscience of the country was stirred, and a reaction set in.

Now the tendency of wage demands is, naturally, to rise higher and higher, and the Wages Bill of the whole country swells and rises like an advancing tide. This is not only because the individual wage is increased, but because of the gradual driving out of the market of child labour, with the necessary consequence of paying adult rates for the same work. This process improves the whole tone and morale of Industry, and has behind it, moreover, almost the unanimous sanction of the public conscience, roused now to a very acute perception of the crimes committed against children in the nineteenth century, and anxious to wipe out the stain. But quite obviously it must raise the costs of production, and so in the long run raises the selling price of the product. The workers claim, rightly we think, that Wages are the first consideration and should be the first charge on an industry. Therefore, they say, prices must follow wages, instead of wages meekly following prices. Most social reformers, whether Socialist or quite otherwise, would admit the principle of a standard living wage, and that this must indeed be a first charge. If a business cannot afford this it is a parasite, battening vampire-fashion on the life-blood of others. It is not in a healthy self-supporting condition and had best go out of existence. But the question of what is a reasonable standard of life, and consequently a reasonable minimum wage, is, naturally, a very debatable point. Many highly desirable things can still not be called necessaries, and it should be obvious, though it is not always observed, that the

Modern Wage Tendencies.

Public Conscience as to Child Labour.

Wages a First Charge on Industry.

dis

national coat, like the individual garment, must be cut according to its cloth.

There are certain natural limits to the process of forcing up wages, which must be recognised. The movement must not go beyond what the industry can genuinely stand, or else business will stop and unemployment set in. But how is this point to be known and a just figure arrived at? Only by straightforward open dealing, by playing with all the cards on the table, and letting the books and accounts be examined freely by the responsible representatives of the men aided by qualified accountants, so that the real truth may prevail. So often in the past employers have claimed that a rise in the costs of production either by shortened hours or raised wages must infallibly ruin their business, and leave them helpless at the mercy of foreign competition, that the men have become very sceptical. They believe—and not always wrongly—that repeatedly they have been "had," "diddled"—misled and cheated in some way, and they are full of dark suspicion and mistrust. "Wolf" has been called when there was no wolf, and now there is reason to fear that though the animal may be actually at the gate no heed will be given! Unless the atmosphere can be changed to one of confidence and good-will founded on straight talk and just dealing, it is useless to think that production can thrive and flourish.

Natural Limits to Wages.

Need for Frankness.

The Cry of "Wolf!"

But yet, as we said, there are certain *natural limits* to wages which cannot be passed by good-will or by Governments, and wage-earners must

not think that this difficulty can be overcome by forcing up prices indefinitely in proportion to wages. There are two reasons for this.

Can Prices always keep Pace with Wages?

1st. If the products are not necessaries but luxuries or semi-luxuries, people will not buy them if the price is raised above a certain point. The demand for such things is "elastic," as the economists say, and people will substitute something else, or do without altogether. Then will come a glut in the market, a slump in business, and unemployment will inevitably follow.

Elastic and inelastic Demand.

2nd. If, on the other hand, the articles produced are really necessaries of daily use, then the demand for them is "inelastic," and people *must* buy them, at no matter what cost. But, in that case, the wage-earners are simply cutting their own throats. For they themselves are consumers also!

This brings us to the difference between Real Wages and Nominal Wages. Nominal wages are, of course, money wages; real wages are the amount of wealth, *i.e.* goods and services, which they will exchange for. Money, we remember, is only a symbol, a shadow of wealth. If there is no substance behind it it becomes a meaningless mockery.

Real and Nominal Wages.

Now this difference between Real and Nominal Wages is of vital importance. It is always admitted, but yet often slurred over, or at all events not sufficiently allowed for. People argue, for instance, that £50 a year for a servant is preposterous, yet perhaps before the war, when the worth of the sovereign was more

The Vicious Circle.

than double, they reckoned £25 a very reasonable figure! The point we are noticing here, however, is simply the effect of raised costs of production on prices, and the effect of prices on the real value of wages. It is no use to double the money payment if at the same time you halve its purchasing power. In the phrase that we are familiar with, and perhaps a little weary of, that is the Vicious Circle.

Advantages of High Wages.

Now to recognise these bed-rock facts, to see that there are certain natural impassable boundaries beyond which neither Labour nor Capital can get a bigger reward for their services, is not to fall back for a moment on the vicious idea that low wages are good for an industrial community. Wages should be as high, the standard of life as high as is possible, subject only to the limitations we have pointed out. It is justice, and it is good business too. Low wages are bad for an industry; bad for the employer as well as for the employed; bad for production as well as for life. Experiment after experiment has proved that in normal circumstances, and up to a point, high wages and efficiency go hand in hand.* High wages mean better food and a better

Connection with Efficiency.

* We say that high wages and efficiency coincide, "in normal circumstances," and "up to a point," because though we are reluctant to make any reservations, yet it is no doubt possible to raise wages to a degree which removes the natural stimulus of need, and human nature, shrinking instinctively from the pain of hard work, grows lazy, and output is reduced. If, for instance, a miner is so highly paid that in three days' work he can earn enough to maintain himself in his traditional scale of comfort for the whole week, the result may be to induce him to live in idleness the other three days. This may or may not be good for life, that depends on how he uses his leisure, and other things, but it cannot be contended that it is good for industry and output, on which other people's lives

home, and consequently a better physique, capable of harder work. Not only that, but the psychological results are equally important. A well-paid man, not harassed by the problems of house-rent and how to feed his family, will have his mind at ease and work better. It must be remembered, however, that the key to content is not only good pay with good hours and conditions, but security. In saying this we are referring, of course, only to economic causes, and not to questions of the Status and Dignity of Labour, which are profoundly important. But, economically speaking, the great problem of Industry at the moment is undoubtedly how to do away with the terrible insecurity which haunts the wage-earner's life. His contract may be terminated at a week's or a day's or a moment's notice. He never knows. The parent of much industrial unrest, and of the deplorable practice of " ca' canny," *i.e.* spreading the work, is admittedly the gnawing fear of unemployment; of being suddenly, for no fault and for reasons quite beyond personal control, deprived of the means of livelihood.

Security.

Dread of Unemployment.

Ca' canny is the worst of all remedies, and can but aggravate the disease, which is due fundamentally to two causes, under-production, combined with bad

may depend. And, also, abnormal circumstances may interfere to vitiate the natural good result of high wages and seem to contradict our assertion that they conduce to efficiency. Such are political resentment, industrial unrest, class suspicion, and aversion to work in order, as it is believed, simply to pile up more profits for private owners. We believe that the cause of slack work and bad work lies in these things, and not in the fact of giving a just and generous reward to Labour, and that the remedies must be sought accordingly. More and better education is " indicated," as physicians say.

distribution of purchasing power. To ca' canny is to produce still less, and, apart from any moral aspect, is economically quite unsound. This is apparent to the economist, but, naturally enough, not to the half-educated worker, who takes short views. He only sees that if he does half a proper day's work in the day there will be so much more left for him to-morrow, or for a fellow workman. He does not see that this system makes contracts so difficult and uncertain, and the costs of production so high, that employment shrinks instead of growing. He cherishes what has been called the "Work-Fund Theory," just as fallacious as the old "Wage-Fund Theory"—the theory that there is a given fixed supply of work to divide at any time, and the longer it is made to last the better for employment. But the amount of work is *not* fixed. It is capable of growth, and he by his ill-advised methods is slowing down the production of wealth, of all those exchangeable goods and services on which the standard of material life for all alike depends.

Ca' canny.

The Work-Fund Fallacy.

And ca' canny contributes nothing to the problem of a better distribution of wealth. Imagine a mother promising to make a cake and divide it among her family if they all contribute a share to its production. Each is to give a proportion of his earnings to buy the ingredients; one undertakes to go and buy them, another to help mix them, a third to fetch in the coal and light the fire, and so on. However justly or unjustly the mother reckons the value of the share which each has contributed, however fairly or unfairly she divides the

Production and Distribution.

product, still quite clearly the possible share of each must depend on the size of the cake. Distribution is immensely important, but production is more fundamental still.

We may admit with shame that the national cake has not been fairly divided in the past, and insist on finding a remedy for this great evil, but it will not help matters to make a smaller cake.

NOTE.—With regard to the gradual driving of child labour off the market, noticed on p. 93, another great indirect advantage of such a policy if consistently and thoroughly carried out, is its effect on unemployment and in restoring the normal balance of authority in families. It is an anomaly and reversal of the natural and desirable order of things that parents should be dependent on children instead of children on parents; that the father and head of the household should be unable to obtain work at a living rate, and the whole family subsist largely on the earnings of juveniles who have had their education cut short in order that they may be pressed into industry. They in their turn are too often forced into the ranks of the unemployed as soon as they become adult and marry and require a family wage, to make room for a fresh supply of cheap child labour. Such a system on the one hand helps to create the very problems of unemployment which, on the other, the nation must pay millions to alleviate, if only to prevent actual starvation and ward off revolution. What is wanted is not alleviation, though that is necessary in a crisis, but prevention and solution.

CHAPTER XIV

WAGES—II

AFTER our general consideration of Wages we turn next to the various ways in which they can be calculated and paid. Most systems of wage payment fall into one of two categories; they are either Time-Rates or Piece-Rates. Each system has some marked advantages and disadvantages, and we must weigh them carefully to see to which side the balance inclines, and whether it is not possible to combine the good points and avoid the evils of each.

Time-Rate and Piece-Rate.

First let us think of some simple tests which we ought to apply in judging of the merits of any Wage System.

Tests of a good Wage System.

First and before everything it must be *fair* all round, fair to the workers as a group, fair also to each one of them as a separate individual, fair to the employers, and fair to the whole Community of Consumers.

Secondly, it must be compatible with progress and efficiency in Industry.

Thirdly, it must consider what we may call the spiritual side of that great mass of humanity who live by wages but not by bread alone. It is not enough that our system should do material justice, and not

enough that it should conduce to an ever greater output. It must also consider the human dignity and self-respect and aspirations of the workers, both collectively and individually.*

Now let us apply these tests. In comparing the systems we may notice first that they are really interdependent and that one implies the other. It may be said on the one hand that Time is ultimately the basis of all wages, because even when Piece-Rate is the rule it is calculated on the assumption that so many pieces can be done in an average working day. On this view therefore everything depends on whether the underlying Time-Rate—the estimate for the payment of a day's work—is an adequate one or not. On the other hand it may be claimed that all wages are really and fundamentally payment by result, since even when the work is nominally paid by time, the employer calculates and requires certain results, though they are not explicitly stated as in a price list. Which element is the more vital depends really upon the angle from which the question is regarded—the point of view of the employer or the employed. The result of the work seems the all-important point to the one, while the time, which is the stuff of his life, seems more important to the other.

Advantages of Time-Rate.

The justification of Time-Rate is that of two important things, Life and Output; it places the most important first, namely, Life. For this reason it is the system that has been most favoured by the men's Unions. It safeguards the worker from many perils and abuses;

* Remember that we are not now considering the *amount* of the reward to Labour, but the *method of its payment.*

from over-pressure and strain, " speeding up " as it is called; from possible trickery such as too often has prejudiced Labour against Piece-Rates; from loss by bad management which may reduce his possible output irrespective of his effort; from the temptation to bad scamped work. It gives a steadier protection to his standard of life than Piece-Rates, and makes it possible to increase his wage with his age and experience, which would often be very desirable. Certainly the Time-Rate, if it is an adequate one, would seem likely to have a better effect on the worker in making him feel less driven and more secure, and physically it does not use up his life forces so quickly. The highest and most skilled forms of work are indeed always paid by Time. It is chiefly routine repetition work which is suited to Piece-Rates. Most brain-work, from the Prime Minister's to a clerk's, is salaried, and it is scarcely possible to imagine it being paid by the job instead of by time!

Position of Brain-Workers.

You may say that, on the other hand, creative workers, inventors, artists, musicians, and writers are not paid by time, but by the piece, so much for each book or picture they produce. Quite true, but we must remember that these are not working for wages at all, but on their own account, and selling the produce direct to the public. So also with professional men and their fees. But the Prime Minister is a wage-earner on our definition, for he produces utilities (we hope!) at stipulated rates for an employer, viz. the nation. If an inventor is retained for a salary by a firm, say, of engineers, he certainly becomes a wage-earner, but then, as we noticed above, he is paid by

time, and not by the number of inventions he turns out!

It is well to note that the best opinion is unanimous that Piece-Rates are bad for juvenile workers. The nervous strain on the girls, who greatly out-number the boys in the trades where Piece-Rates are used, is bad for the constitution at a critical age. And, moreover, piece-rate tempts the young worker to remain concentrated on some one process in which she has first acquired skill, and at which she can earn a higher wage for the moment than she could at a new process. It would be to her own advantage ultimately, and to the advantage of industry in general that she should pass on from process to process and acquire a more general facility, for though her individual output might be temporarily reduced, labour would be rendered more fluid or flexible, which is the quality it greatly lacks at present, and which makes the problem of unemployment much harder to solve in many cases than it would otherwise be. Under a Time-Rate system, with no immediate financial inducement to remain at one mechanical job, the natural wish for variety would probably urge her to learn the different processes of her Industry.

Time *v.* Piece-Rate for Juvenile Workers.

Now having noticed some of the chief advantages of the Safety System,* as Professor Urwick used to call Time-Rate, we must be equally fair in noticing its drawbacks and disadvantages. How does it stand our tests?

The Safety System.

* In this and the preceding chapter I have constantly quoted from Professor Urwick's lectures.

Time-Rate is not quite fair as between individual workmen, for it gives no greater reward to better than to less good work. It is not quite fair to the employer, for it forces him to pay a constant definite wage for a variable undefined service, and leaves him somewhat at the mercy of the fair play and good sense of his workers, which cannot always be depended on. It is not quite fair to the public, which wants goods and services produced as quickly as possible, for it gives no direct impetus to increased output.

Drawbacks to Time-Rate.

All these objections can, it is claimed, be got over by some form of Piece-Rate—by the stimulus of payment by result. Perhaps! But it can only hope to be generally accepted if it is very differently applied in the future, so as to overcome the legitimate fears and suspicions with which a large proportion of the workers now regard it.

Piece-Rate, Payment by Result.

For some of its drawbacks and dangers are manifest. It opens the door to many abuses and vital waste. It may pay the quick, clever worker for the moment, while using up his life-forces so quickly that he is flung on the industrial scrap-heap while still young, a tragedy to himself and his family, and a burden to the rate-payers. He has increased the rate of production for a while it is true, but it has been a penny-wise-pound-foolish transaction for the country, to look at it only from the lowest point of view. Then the system obviously tends to victimise the less swift runners in the race; they are ruthlessly eliminated. And again it may give the illusion of a great reward to the

Its Dangers.

exceptional worker, and then defraud him by cutting the rate, so that his extra effort will only bring him in the old wage. This is fatal.

Its Root Idea.

All the friends of payment by result deplore these perversions and misapplications, as they consider them, of their root idea, which is after all sensible enough, namely, that if you wish for increased efficiency and output, you should give the workers a direct interest in them.

Its Advantages.

And certainly if the system can be properly worked and safeguarded it does give the individual worker some advantages.* It recognises and to a certain extent rewards his special abilities or diligence; it leaves him free to spur himself, instead of being liable to the constant supervision and spurring of a foreman; and it enables him to increase his earnings in a sudden emergency by a spurt of extra effort, which may be very convenient to him, though obviously this again may be a temptation to overwork. The need of increased production is so great in the impoverished world to-day, that it seems probable a great attempt will be made to introduce the stimulus of Piece-Rates in all trades which are at all suited to them. In many cases clearly they could not be applied successfully, and in others by the very nature of the case they are not applicable at all. But there are many trades where no doubt the system could be applied effectively. They are those where the work is chiefly repetition work, of a kind where the greater or less effort of the worker can make a perceptible difference in output, and where that effort is capable

* See note, p. 108.

of being easily measured. It is all the more desirable, if this method of wage-payment is going to spread, that we should think out carefully what could be done to remove some of the most serious objections to it.

Three Essentials for a successful Piece-Rate System.

No Piece-Rate system can be satisfactory which does not provide for three things. First, the standard living wage of Time-Rate must be absolutely guaranteed, so that the stimulus payment can only come into play to increase this and never be the means of reducing it for any worker. Secondly, the Piece-Rate must be settled by collective agreement with the whole group of workers through their representatives, so that the men may be satisfied of its fairness, and it must never be arbitrarily cut or altered on any pretext whatever. If a change in the rate becomes necessary, full explanations must be given, and it must be made in consultation with the group. This is essential to do away with the deadly suspicion that the cut is made with the object of piling up higher profits for the shareholders, and depriving the workers of the fruits of their extra effort. It, of course, implies a full recognition of the Unions, and a removal of the disastrous belief that all these payment-by-result systems tend and are intended to undermine the Unions' influence, and to break up the solidarity of Labour. And, thirdly, adequate safeguards must be devised to protect the workers from undue pressure and "speeding up," and to prevent the reckless waste and exhaustion of human life to which we have already alluded. This is more difficult, for this is the real inherent danger of all piece-rates. It may not be possible to make a scheme

which shall absolutely prevent a worker from over-pressing himself for the sake of extra gain, but it ought to be quite possible to prevent the undue stress due to the pressure of foremen and the covert threat of dismissal on some pretext if a desired standard is not reached.

Many varieties of Payment by Result have been introduced, chiefly by able American business men, the systems often bearing the name of their inventors. Very ingenious they are, and some of them claim to be popular and successful, but none so far have obviated all the above objections.

Different Methods of Payment by Result.

Besides the "straight piece-rate," there is the "differential piece-rate," which pays at a higher rate after a certain output called the "Standard Task" has been accomplished. And there are the various "Premium Bonus" systems, most of which are closely connected with "Scientific Management," involving minute study of every detail connected with the performance of the specified task in the most economical and efficient way. Some of these calculate the bonus not directly on output, but as a percentage of the time *saved* by the workman who attains a given standard in less than the time estimated as normally necessary; others calculate it on the basis of the time actually *taken* for a given task; others on the standard of "general efficiency," so as to include quality as well as quantity and rapidity of work; others, again, on the principle of paying for reduced costs and so saving waste. This last comes very near to a true system of profit-sharing. It is impossible to go

Profit-Sharing.

into the relative merits and demerits of these various systems here, as they need a book to themselves.

Larger Questions.

Neither can we attempt to touch here on the great questions of the Co-partnership of Labour, its right share in the Control of Industry, the desirability of Group Payment, the ideal of Co-operation, or again of the possibilities and dangers of National Guilds. All these interesting and difficult matters are indeed of the first importance when we are applying our third test, and considering the spiritual aspirations of the workers and their human dignity, as well as their material needs. But they lie outside our scope here, for we are only attempting to give a simple and elementary account of Wages as they actually exist under our present Industrial System.

NOTE.—One claim sometimes put forward for Piece-Rate is that it would help to solve the problem of unemployment. The argument is that there are many jobs which an employer would be glad to give out at a fixed Piece-Rate, but where the margin of profit is so narrow that he cannot afford to risk the uncertainties of Time-Rate, under which the cost of the job would depend on the chance of getting capable and conscientious workmen. On the other hand, it is urged that though this may quite possibly be the case in reference to isolated private jobs, yet these are but a fraction of the whole, and that Piece-Rate does not touch the crux of the unemployment question, which is mass production. Or rather it does touch it but in an injurious way, for there is evidence to show that, in fact, the introduction of Piece-Rate does not remedy but on the contrary intensifies unemploy-

ment. If it attains its object of increasing economy, efficiency, and output, then the tendency is that fewer men are required, and the dismissed go to swell the army of the unemployed.

This argument, however, if it is intended as a general one against Piece-Rate, seems to prove too much, since it would apply equally to machinery, and few people now doubt that the introduction of machinery has been good for industry as a whole. It could also be used as a defence for ca' canny, which we tried to show was quite unsound as a remedy for unemployment. Neither is it quite true to say that employment could only be favourably affected by the certainties of a fixed wage for a fixed job, in few or unimportant instances. Ship-building is an instance to the contrary, and many contracts that would provide employment for thousands are not undertaken because of the uncertainties of the present state of Labour, and the difficulty under Time-Rate of guaranteeing a contract price or a date of delivery. This, however, seems rather due to Labour unrest and ca' canny than to the method of wage payment only.

The truth seems to be that in the long run anything which increases efficiency and economy must, so long as there is an expanding demand, increase employment, and that this applies both to machinery and to any particular method of payment found to produce these results. But on the other hand they contribute little or nothing to the solution of the problem of immediate unemployment, for here the evidence as to their effects is contradictory and inconclusive, but on the whole they probably, by temporary dislocation, rather add to the problem than solve it.

CHAPTER XV

MONEY—I *

What does Money mean ?

In all our discussion about the production and distribution of wealth we have been constantly alluding to money and taking it for granted. And this was inevitable, for one cannot discuss and define everything at once. But now we have to consider money at closer quarters, and see what we really mean by it, and what importance ought to be attached to it.

The Pre-existence of Wealth.

Certainly we have realised that Wealth is quite independent of Money and can exist without it, whereas Money would be meaningless unless there were Wealth behind. Wealth, in fact, in the economic sense, existed in the world as soon as there was any surplus of goods and services over those which each created and consumed himself, and which therefore was available for exchange. But there was no money for long after this. How, then, was the Wealth exchanged ? By means of what is called barter—that is by the direct exchange of one class of stuff for another. We saw that in the first stages of Division of Labour, when men began to specialise in crafts, one would become a miller, one a hunter, another a smith,

Barter.

* For the next two chapters I am much indebted to Mr. Hartley Withers' book, *The Meaning of Money*, and to M. Gide's *Political Economy*.

and so on. The obvious and natural thing was for the hunter to exchange his superfluous venison and game for the miller's flour or for the services of the smith. Yet this method was open to great objections, and its inconvenience increased as civilisation grew more complex and the different classes of goods and services were more and more multiplied and markets extended. The hunter who had meat to barter might want the smith's services, but the smith might be in need of flour and unwilling to take meat in exchange. This is the difficulty of what economists have called the "double coincidence of wants." To make barter satisfactory the would-be exchanger has not only to find some one who wants what he has to dispose of, but who can also give the particular stuff that he requires in exchange. But even if this were arranged, barter was still very awkward from another point of view—how were the relative values of, say, a haunch of venison and a sack of flour and the smith's work in sharpening a weapon to be calculated ? Endless disputes and waste of time were sure to ensue. It became clear then at a very early period that something was required which could be used both as a medium of exchange and a measure of value ; something which would be universally accepted in exchange for any class of goods or services, and in terms of which values could be measured and compared and accurately expressed. This medium of exchange and measure of value was called Money, and with the birth of money barter passed away and was superceded by purchase and sale.

The Double Coincidence of Wants.

Need of a third Commodity.

Invention of Money.

The first question arising would naturally be, what sort of stuff should be chosen for money? Well, as far as its first use went, almost anything would do for a medium of exchange, providing it stood the first essential test of universal acceptability. Unless everybody was willing to accept it in payment for whatever he had produced, clearly it could not fulfil its function. Various things have as a matter of fact been used as currency in different parts of the world and at different periods of history; flint implements, oxen, grain, rice, tobacco, shells, and so on. But clearly though these, or any other commodity in general use, *could* be used as instruments of exchange if people were willing to accept them, yet they were not very convenient instruments. Some of them were bulky, difficult to transport, and some not readily divisible without destroying their value. Grain could perish, oxen die, shells fall in general estimation and cease to be acceptable. And as a measure of value they were obviously quite unsuitable.

Money as a Medium of Exchange.

Money as a Measure of Value.

There are certain qualities which a good instrument of exchange must possess to ensure its continued and universal acceptability.

First of all it must be *limited in supply*. If common pebbles from the beach or flints from the road were declared by Act of Parliament to be legal money, clearly they would not be acceptable, since everybody could provide himself with as much of this currency as he cared to pick up, and its purchasing power would shrink to nil. People would prefer to stick to their

Qualities of a good Instrument of Exchange.

Interesting?

goods and fall back on barter. Secondly, it must be *lasting*, for people will not be paid in a currency which rapidly deteriorates. It must be fairly *uniform in quality*, that is all specimens of it must be of approximately equal value. Then, too, it must be *portable*, small in bulk relative to its value, easy to handle, and (a very important point) easily *divisible* into small portions whose exact relative values can be ascertained. Another thing is that it must *not* be easily *counterfeited*. Most people claim in addition that it must also have some *intrinsic* value of its own, some alternative use to which it could be put apart from its uses as the accepted instrument of exchange, and that without this it will not long satisfy the test of universal acceptability. This, however, is a disputed point and we shall return to it when we are considering paper money and credit.

Choice of the Precious Metals.

For the moment it is enough to notice that all the qualities we have mentioned are possessed in a very marked degree by the precious metals. Accordingly we are not surprised to find that comparatively early in history they were recognised as *par excellence* the most suitable form of money that could be chosen. At first they were used in the form of bullion, that is uncoined. Little ingots of metal were carried about and weighed as occasion required.

Bullion.

The clumsiness of this method, however, was obvious enough, and coinage was the next step. Small pieces of different sizes and values were prepared, and stamped with some superscription, generally the image of the sovereign. The early coins were of various shapes, sometimes square, sometimes

Coinage.

oblong, cubic or irregular, and with smooth edges. From this great inconveniences arose, as dishonest persons found they could shave off small parings and odd corners from the coins, reducing their weight and debasing their value, without being detected, and making a profit by selling their accumulations as bullion. Gradually as the result of experience our modern round coins, with milled edges to prevent these abuses, were evolved in comparatively recent times.

Monometallism and Bimetallism.

Now of the two precious metals, gold and silver, it is obvious that one only might be chosen as the currency of a country, either gold as in England or silver as in India, or both, which is known as the system of bimetallism, as in France. It may seem surprising to say that England has a gold standard only, when the regular use of silver coins also is in everybody's knowledge. But the fact is that in England silver is used as "token money" only, simply as a convenience, to economise the use of the more valuable gold, and also because it would not be convenient, even if possible, to divide gold into coins of so little value as are needed for small change. Silver is not "legal tender," as it is called, for more than £2, nor are copper coins to more than the value of one shilling.

Legal Tender and Token Money.

There are advantages and disadvantages on either side in the case of monometallism *versus* bimetallism. It is an extremely difficult and controversial subject, and much too intricate for us to do more than allude to it here. But one argument that can be readily understood against

A Difficulty of Bimetallism.

the policy of treating both metals as legal tender on an equal footing, is the difficulty of fixing their relative values. For as a matter of fact their relative values are not fixed but fluctuating. They vary, like those of all other commodities, with Supply and Demand. Let us suppose that at some given time the value of an ounce of gold is twenty times the value of an ounce of silver, that the sovereign equals twenty shillings, and that both are legal tender. A proportionate amount of silver would then be embodied in each shilling, so that it did in actual fact represent exactly one-twentieth of the amount of gold put into a sovereign. So far good, both currencies will be equally acceptable. But now consider. If more gold mines are discovered and the supply of gold therefore increased, then its value relative to silver will drop and each shilling will have in it *more* than one-twentieth of the present value of the sovereign. If on the other hand the supply of silver increases, then each shilling will be containing *less* than its professed value. In either case one of the two currencies will be debased and become "bad money," that is to say it will not really be worth the amount of the other coins which it is supposed to represent, and it will be discredited accordingly. Now, of course, if whenever this happened all the debased currency were called in and new coins issued containing the correct amount of metal, the matter would be adjusted, but in practice this cannot be done. Not only would it be a very troublesome business, most inconvenient and upsetting to trade, but minting is an expensive process and it would have to be constantly repeated to keep the balance

Varying relative Value of Gold and Silver.

true, since these fluctuations to a greater or less extent are always occurring

But now let us suppose that it is decided to do nothing, to ignore the change in value and continue using the shillings and other silver coins as if they were indeed equal to their face value. It may be asked what harm could come of this if the coins were still legal tender and therefore valid for paying all debts, taxes, etc. Strange to say the remarkable fact would ensue that the good money, which we are supposing for the moment to be gold, would gradually disappear, and only the bad money remain in circulation. This may seem the exact opposite of what we should have imagined likely to happen, yet it is clear enough if we think it out. Of two coins, both legal tender, one with an intrinsic the other with only an arbitary value, any merchant will naturally prefer to pay away the bad one in the course of business and keep the more valuable for a rainy day. Moreover, though his Government may have, and in fact has, the power to make any currency however debased legal tender in his own country, yet its writ does not hold nor its authority carry in other lands. Foreign traders cannot be compelled to sell except on their own terms, and they will certainly not accept payment in the depreciated coins. It follows then that by degrees all the good money will be withdrawn from home circulation, either drained away for necessary foreign payments and so lost to the country, or else hoarded by individuals for the sake of the intrinsic value of the gold. This remarkable economic law, namely, that "bad money tends to oust good money," is known as "Gresham's Law," owing to the fact

Gresham's Law.

that it was recognised and explained by a statesman of that name who lived in the time of Queen Elizabeth.

Now where there is a gold standard, and silver is only used as token money, this difficulty cannot arise. It cannot oust the good gold, for only gold is legal tender. Even if the value of silver rose sharply it would not be worth any one's while to prefer the silver coins or accumulate them, because they are intentionally made to contain far less than their face value of metal, and if melted down would not realise as bullion anything like their accepted artificial value as token coins.

Money as a Standard of Deferred Payments.

In this chapter we have so far noticed two of the main functions of money whose utility is universally acknowledged, viz. as a medium of exchange and a measure of value. It has another use which we must now notice, namely, as a Standard of Deferred Payments. All business transactions, as we know, are not immediately completed by purchase and sale. A house may be leased or capital invested, and the payment spread over a series of years. Money provides a ready means of calculating these payments, but it must be remembered it will only be a satisfactory means if the currency is reasonably stable. For the

Need of a stable Currency.

value of money, as we have so often repeated, is only the value of its purchasing power, only the value of the amount of goods and services it gives its owner a claim upon. If then the purchasing power fluctuates violently, the standard on which deferred payments were fixed will be a misleading one, and either a

greater or a less value than the one estimated and agreed upon will in fact be paid. It is difficult to see how this could be got over. It has been suggested that all such deferred payments should be periodically adjusted by reference to the Index numbers, in other words, varied in relation to prices. This would remove a hardship, but in practice it seems that it would be a very cumbersome process and open to various objections.

Money as a Store of Value.

There is yet another use of Money, which some people consider rather as an abuse and a reason for wishing to do away with money altogether, *i.e.* as a Store of Value. Now it must be admitted that the introduction of Money has made the accumulation of colossal fortunes possible in a way and on a scale which the accumulation of ordinary consumption goods, or jewels, or even of land could not do.* If, however, the Community decides that enormous accumulations are anti-social and injurious there are various ways in which it can deal with them, by Super-taxation, or by altering the laws of Inheritance, and so forth, without proceeding to the drastic step of abolishing money. Such proposals are not likely to be considered seriously to-day. Money is too valuable!

Objections.

Importance of Money.

We saw in our chapter on Value that exchange actually creates fresh wealth and new values, and Money is a unique instrument in facilitating and promoting exchange. It can therefore claim that though it is not wealth itself, nor yet one of the Big Three, as we might call the three Agents of Production, yet it is an almost

* See note, p. 119.

indispensable lubricant in the practical working of the great wealth-producing machine. It is indeed difficult to think of anything which would oil the wheels so well.

In the next chapter we shall deal with the various forms of money in use in modern times.

NOTE.—When we say that the introduction of the use of money has made accumulation of stores of wealth on a large scale easier, we do not mean hoards of money in the limited sense of currency, viz. gold and notes. For it can fairly be contended that a miser might more easily hoard a colossal value in precious stones than in gold or even in notes. But we mean money in the wide sense of all orders on wealth, orders which give a command of present and future goods and services, and this includes shares and securities. The ease with which these can be amassed, and safeguarded from the miser's terror by night, *i.e.* burglars, and realised and converted into the real wealth of which they are the symbols, makes them specially convenient for storing up. And moreover, the hoard of jewels in a safe is buried and barren treasure, but invested money is fertile and brings in an income to its owner. It is this latter point which, as we saw in our chapter on Interest, has been considered unnatural and immoral by many people of all ages. But we saw reason to disagree with them.

CHAPTER XVI

MONEY—II

From Metal to Paper Money.

We have traced how barter, the direct exchange of goods for goods, passed into sale, the exchange of goods for money, and we saw how the precious metals became established as the accepted form of money. But our ordinary experience to-day tells us that as a matter of fact most payments, except in the case of small sums, are not now made in coins at all, but by use of bank-notes and Treasury-notes, or, most usual of all, by cheques. In other words, stamped pieces of paper with no extrinsic value to recommend them have come to be acceptable currency. How has this come about ?

The first Bank-notes.

When people formed the habit, as they did, of depositing their gold for safe custody with the gold merchants, it was naturally a matter of mutual convenience that these first bankers should issue to their clients formal pieces of paper, which were in fact certificates, stamped with different amounts, and guaranteeing to pay out the gold they held to the amounts so stated on presentation of the certificates. These were the

first bank-notes, and they enabled payments to be made promptly and on the spot, without the trouble and risk of carrying about large sums of gold. But the gold was there to the full amount of notes issued —for every £5 note five sovereigns in the chest of the gold merchant. The paper was simply for convenience with no thought of economising gold. But the system introduced for the first time the element of belief, which is the foundation of credit, as the word implies. If people believed the guarantee, and were satisfied that they could convert their notes into gold at any moment, the transaction would be satisfactory. It proved to be so. As confidence grew, moreover, it was found that in practice the notes were not as a rule promptly presented to be exchanged for gold, but passed from hand to hand and were used for innumerable payments. Often for long periods they thus circulated about the country, and meantime all the equivalent gold lay idle and unused in the chests. To some one, or probably to many people, the idea came that this was a very wasteful proceeding, and that it would be to the advantage of the bankers and of their customers, and also for the good of the whole country if it were used for productive purposes. A certain amount of gold must certainly be kept in hand as a reserve to meet calls, the average number of which could be calculated, but for the rest it ought to be usefully employed. So modern banking started its career.

The Element of Belief.

The Beginnings of Modern Banking.

Now the main idea was sound and sensible enough, but obviously it was open to dangers and abuses.

Banking is a very difficult and delicate business, needing great judgment and experience. If too many notes were issued and too small a gold reserve kept, then in case of any sudden demand the bank would not be able to meet its obligations. Confidence would give way to panic, and disaster be the inevitable sequel. This might be the case even if the bankers were quite honest and the investments of the bank adequate to meet all claims if time were available to realise securities. Where there was fraud the situation would, of course, be even worse. This happened very often; "runs" on banks and their consequent failure caused widespread distress, and Government interfered. A law was passed making it illegal for any bank but the Bank of England, with very few exceptions, to issue notes, and laying down strict rules as to the amount of gold in proportion to notes which must always be held in reserve even by the Bank of England. As a matter of fact these rules have not been particularly effective, since at ordinary times they are not needed, and in emergencies the Act has usually had to be suspended. Its purpose, too, of restricting the power of the banks to create a dangerous amount of credit has not been fulfilled, for the private bankers, debarred by law from issuing legal currency in the shape of bank-notes, turned their attention to the cheque, and developed that to a quite unforeseen extent as the instrument of exchange.

The Dangers.

Bank Failures.

The new Law.

Now is a cheque payment, in the sense that a Bank of England note is undoubtedly payment?

No, there are certain important differences. A Bank of England note is just as good a payment as sovereigns—"as good as gold" in the familiar phrase. True the Bank is not technically a State Bank, its notes are not issued by the Government as Treasury-notes are. But it has, as we have seen, legal sanction, and practically the whole financial power and credit of the country behind it. Unless there were a revolution and the nation went bankrupt and repudiated its debts and guarantees, the Bank of England paper must be honoured.

The Cheque.

Obviously the cheque is not in the same position. In the first place, if the term "money" is limited to those orders of payment which are legal tender, then a cheque is not money at all. For, though the most widely used form of currency in Britain, yet, unlike gold and notes, it is not legal tender. Nobody is obliged to accept a cheque in payment. Technically, in fact, it is not a payment, but only a promise to pay! Still, as it is a promise to pay immediately,* if the promise is good and the cheque duly honoured it is to all intents and purposes a cash payment, and is accepted as such. It has not the Government guarantee behind it, and the creditor who takes it in payment of a debt will naturally want to be satisfied as to the character of the private bank on which it is drawn, and also as to the state of the drawer's account. He will not take a cheque from an unknown person.

Different Positions of a Cheque and a Bank-note.

* A cheque may, of course, be post-dated, that is some future date instead of the present date may be written on it, and it will then not be cashable until that date for which it is drawn.

But in practice it is not difficult to ascertain the satisfactoriness of these guarantees, and the cheque has some points of manifest superiority to the bank-note. For one thing it can be drawn for the exact sum required, down to pence or up to thousands of pounds.

Some Advantages of the Cheque.

Then, again, it can be safeguarded in various ways, so as to prevent loss if it is mislaid or stolen. It need not be what is called an "open" cheque, made payable to bearer, but if drawn to "order" it must be endorsed, *i.e.* signed on the back by the person to whom it is made payable, before the bank will cash it. If, moreover, it is "crossed," it will not be paid in cash over the counter at all, but only into the banking account of the person presenting it. And if it is marked "not negotiable," then in case of theft no one taking it from a person who had no just title to it can claim on it, whether or no they were aware of the theft. If, again, it is marked "a/c Payee only," then, no matter who presents it, even if properly endorsed, it will only be paid into the banking account of the person in favour of whom it is drawn. It is in fact made non-transferable. Another advantage of the cheque is that it is returned to the drawer after being cashed and cancelled by his bank, and the payment is duly entered in his pass book; consequently it serves as a record and a receipt.

The cheque, though not legal tender itself, is, however, a promise that it will be converted into legal tender on presentation at a bank. Of course, if this were always acted upon there would be no economy of gold, but as in the case of bank-notes it was found that under ordinary circumstances business

transactions are carried on without any actual transfer of cash, or with very little. It is all a question of confidence. If that is shaken credit totters, and the whole edifice of modern finance is in deadly peril. But so long as there is full confidence all is well. If a lady pays her grocer's bill by cheque, and they both happen to bank with the same bank it is clear that no gold or notes will need to pass. The banker simply makes a book entry showing that Mrs. A.'s account has been debited by the amount of the cheque, and Messrs. Z.'s account has been credited by the same amount. This is a sample of hundreds of thousands of transactions which occur daily. If the two people bank at different banks the case is in no way different. The various banks do not perpetually send messengers to and fro conveying sums of money to adjust the different accounts as they make debit and credit entries. They simply "cancel out" and at stated times strike a balance between what each one owes the other and pay the difference, probably by a draft on the Bank of England, with whom all banks keep an account for clearing purposes. In this way it will be seen that a vast number of exchanges take place without any cash changing hands at all. Some gold or notes will, of course, always be wanted for payment of wages and petty cash, but the net result of the use of the cheque was a very important economy of gold.

Confidence the Basis of Credit.

The cheque may be said to come half-way between cash and credit. It is practically though not theoretically cash, so long as it is drawn against an actual deposit with the bank. But the power to draw cheques without the

Cash and Credit.

existence of such a deposit may be granted by the banks, and this is clearly credit. The greatest instrument of credit is the Banker's Loan, by means of which, as Mr. Hartley Withers has said, bankers really manufacture money.

The Banker's Loan.

If a man is given a loan by his bankers, to start, say, a business or a farm, it will not be made in the form of a capital sum handed over to him, but as credit, the permission to draw cheques up to a certain amount. He may never actually draw out the whole amount. Some he will need, of course, in cash to pay his wages bill and current out-of-pocket expenses, but his raw materials and plant, etc., he will, no doubt, settle for by cheque, and as we saw this probably will not involve anything beyond a book transaction.

Power and Responsibility of Bankers.

Now this power of giving credit is one of the most important factors in encouraging trade and industry and the creation of fresh wealth. To give credit wisely, neither too much nor too little, is one of the heaviest responsibilities of bankers. Naturally they will not make a loan without adequate security, but it is no easy task to decide always what is adequate. Much depends not only on material security but on the character of the borrower, the nature of the purpose for which the loan is wanted, and the extent of the demand which the new enterprise is intended to meet. To assess all this wisely, to be neither so cautious and timid as to check legitimate enterprise, nor yet so prodigal as to encourage rash and reckless speculation, requires, indeed, great gifts of skill and judgment.

We have no time, however, to pursue the interesting subject of banking further, for we have still to consider two other forms of money besides the bank-note and the cheque. A cheque we saw was an order from one person to his bank to pay a certain sum immediately on demand to himself or to some other person. A Bill of Exchange, which we must turn to next, is a very similar order, but there are certain differences to be noticed.

Bills of Exchange.

In the first place it is used for payments to be made not in the present but at a future date; and in the second place it is most largely, though not by any means exclusively, used for foreign transactions; that is to make payments in another country where a cheque might not be acceptable, and to send gold would be expensive and inconvenient. Next, its form is different from that of the cheque. A cheque, we all know, is drawn by the person who pays; a bill of exchange, on the other hand, is drawn by the person who is to receive the money, and the debtor "accepts" it, as it is called, by writing his name across the front of it. By this acceptance, if the acceptor's name is financially good, the bill of exchange has been made negotiable, and has an immediate market value. Say it is a bill for a thousand pounds payable in three months, and that the current rate of interest is 4 per cent. The present value of the bill is therefore £990, and any bill broker will give that sum for it, minus his own small commission of $\frac{1}{8}$ per cent. This is called "discounting a bill," and it is a regular business. Foreign transactions are usually negotiated through these bill-brokers, but home business

Discounting of Bills.

is very largely done through the banks. A Bill of Exchange, like a cheque, is not a final settlement; it is only as good as the name of the acceptor. If it is not met in due course the discounter can sue the drawer of the bill, from whom he took it, and the drawer in his turn can sue the acceptor, who is finally liable. Sometimes a second name to "back the bill" and so give a double security is required before the bill is discounted. The person who drew the bill and to whom therefore the money is due, may, of course, prefer, if he is not in a hurry for it, to let the bill "mature," and take payment in full on the agreed date, but it is more usual to turn it into ready money at once by discounting it.

Produce Bills and Finance Bills.

The Bill of Exchange is an extremely valuable instrument of credit, and perfectly sound so long as the bill is a genuine one, a "produce bill" as it is called, which means that it is drawn against goods actually supplied or in course of preparation for market. But it can be quite otherwise if it is used merely as a means of raising money, with no easily negotiable securities or real produce behind it. Such bills are called "finance bills," and they may be very dangerous and undesirable.

Unconvertible Paper.

So far all the paper money which we have been considering is based on the assurance that it is convertible on demand into legal tender. This meant in England before the war that it was convertible into gold. Now we must glance at unconvertible * paper, of which

* Treasury-notes are technically convertible, but the technical right is in practice valueless, as gold is not permitted to be exported without licence.

we have an example daily before our eyes in the shape of Treasury-notes. These are made legal tender by Parliamentary action, and consequently Government can pay us our wages or salaries or the interest on our War Loan or whatever they may owe us in this form. But there is no gold behind them. It seems a delightfully cheap and easy method—merely the cost of some paper and printing, and no expense for bullion or minting. It is true that as we also can pay our taxes in these notes, the Government does not reap the full advantage, but still the profit must be considerable. Why, moreover, should any one be poor ?—since Government can raise wages all round by a stroke of the pen, and issue as many notes as are required to pay them with a turn of the printing press ? It is the old fallacy that more money necessarily means more wealth. To understand fully why this is not so we must examine what is known as the Quantity Theory of Money.

The Quantity Theory of Money.

Realising as we do already that the value of money is only its power to purchase the real wealth of which it is a symbol, we can easily grasp the idea that the total quantity of money in a country must be equal to the total sum of purchasable goods and services. This would actually be the case if each piece of money performed one daily act of exchange only, but this, of course, is not so. The goods bought are consumed, the money remains. The same coin or note performs several services in the same day as it passes from hand to hand ; more or less of them according as trade is brisk or the reverse. This is known as the velocity or efficiency of money. If I

use a pound note to pay my baker's bill, and he promptly hands it over to the miller in payment of his flour bill, and the miller uses it to settle his wife's drapery account, and the draper uses it to pay for his children's music lessons, then obviously that note has performed four acts of exchange, which is expressed by saying that its velocity or efficiency is 4. The correct statement of the quantity theory is the following formula: that the total amount of money multiplied by its efficiency equals the total goods and services. Clearly the greater the velocity the less money will be required. But for the sake of simplicity leave out the question of velocity for a moment, and imagine that there are a thousand million pounds available, and a great heap of goods and services to be purchased, in other words, a thousand million pounds' worth of commodities. It is clear that if by a miracle, while the heap remained of the same size, the money was doubled, the price of everything would be doubled too. If boots had cost a pound a pair before, they would now cost £2 since the demand for boots would remain the same and the supply would be still limited, but everybody would have twice as much money in his pocket to compete for the same limited supply.

The Velocity of Money.

Instance of the Application of the Quantity Theory.

Now that, in effect, is what happened during the war, except that for various reasons the heap of goods was inevitably greatly reduced, while an immense amount of new money was created. This is what is meant by an unduly inflated currency. It corresponds to no increase in real wealth—its purchasing power goes

Inflated Currency.

down—and the value of money is depreciated. No one, of course, suggests that the over-issue of unconvertible notes was the only cause of the huge rise in prices during and after the war; there were many others also, but this was probably the most important single cause.

A fatal Facility.

And this is the great drawback to unconvertible paper money. It is too easy! The temptation to issue more of it than is justified by the real state of credit and production of wealth is too great. In emergency it seems that no Government can be trusted to withstand it.

Possibility of an International Paper Currency, based not on a Gold or Silver Standard, but on Credit.

It has often been suggested that it would be equally satisfactory and far less expensive to abandon the gold standard and have only a paper currency, guaranteed not by a gold reserve, but by the credit of the nations. There might certainly be a difficulty in trading with uncivilised peoples on these lines, but otherwise such a system would not seem theoretically in any way impossible. It would be necessary that all civilised nations should agree to give legal currency to one single international paper money only, and not to increase the quantity of it except in a definite agreed proportion, based on the increase of population and in relation to increasing or decreasing productivity per person. Practice and theory, however, are two different things, and they do not always coincide.

We saw that all credit is based on confidence, and it is difficult for the most optimistic to think that we

are at all near such a degree of confidence in international arrangements as would make such a scheme either safe or practicable. Post-war experience here and in Europe has not been encouraging as to the substitution of unconvertible paper for coin. True it was not accompanied by any of the safeguards which would admittedly be necessary, but, even if these had been agreed to and accepted, who could feel certain that in time of stress such agreements would not be treated as scraps of paper! Probably there are few financiers who would not be thankful to get back to the comparative safety of a gold currency, if and when it were possible.

Note.—In stating the Quantity Theory of Money, we assumed, for the sake of making the fundamental argument clear and simple, that the supposed country which we were describing was self-sufficing, and that all the goods and services needed and all the money available to purchase them were contained within its borders. The actual situation, involving world trade and foreign exchanges, is, of course, far more complicated, but the general principle of the relation between the amount of money and the amount of purchasable wealth, and the consequent connection between inflated currency and high cost of living holds good.

CHAPTER XVII

TAXATION—I *

We have considered in previous chapters the nature of Wealth and Value, and the means by which Wealth is produced and Value caused. We have also examined the machinery by which all this wealth is distributed, and have seen the uses to which that unique instrument money is put.

What Taxes are.

Now we want to turn our attention to taxation. Taxes are, as we probably know, that portion of private wealth which the State demands from citizens for the purpose of paying for the functions of Government. The amount of revenue needed will, therefore, naturally depend on what the proper functions of Government are considered to be, and this is a subject on which opinions differ greatly. As civilisation develops, States tend to become more highly organised, the demand for revenue rises, and people are apt to grumble at taxes, and to regard them as a tyrannous imposition. But it must always be remembered that in a democratic community the State is not some alien irresponsible power, but is the Society itself organised for the purposes of government. The Community

What the State is.

* For this and the next chapter see Armytage Smith's *Principles and Methods of Taxation.*

controls its own destinies through its own chosen representatives, and, since it decides both the amount and methods of taxation and the objects to which the revenue shall be devoted, taxes are really self-imposed contributions for what is decided to be the common weal. This may seem an ideal picture, hardly corresponding with realities, for the democratic machine is, indeed, very imperfect as yet. But still ultimately the power rests with the majority of all citizens, and this makes and should make the whole difference in our attitude towards taxation. No doubt from one point of view we should all prefer to pay less or no taxes, but the practical question is whether we would not choose to pay the taxes, inconvenient as they are, rather than do without the services they provide. The answer will probably be, "yes—if there is no other better and cheaper method of getting them provided," and "no" if the facts are otherwise.

The Functions of the State.

Now what are the proper functions of the State? The *laissez-faire* school would narrow them down to police work and defence. "Keeping the ring," "hindering hindrances," removing obstacles from the path of private enterprise—these are the only functions they would recognise. The policy of non-interference, the motto "pas trop gouverner," represent their ideal, and a very sound one up to a point, though experience has shown that beyond a point it is too dangerous to the Commonwealth. The Socialist school, on the other hand, would claim that State activities properly extend over the whole economic life of the country. Probably

Two Schools of Thought.

the truth lies as usual somewhere between these two extreme points of view.

Adam Smith laid it down that broadly speaking the legitimate functions of the State are three, and no subsequent definition has really improved or vitally altered his conception. The three were as follows. First, Protection from foreign foes, viz. Security. Second, Protection of citizens from injury by each other, viz. Justice. Third, Provision of Works and Services of Public Advantage, viz. the Common Good.

Adam Smith's View.

It will be noticed that there is no disagreement in principle on the two first points. Every one admits that they are essential duties of any Government. The amount of expenditure which is right and necessary for adequately performing these duties, is, on the other hand, and obviously always must be, a matter of acute controversy. It depends not only on foreign affairs and policies, but on fundamental ideas as to international relations and the best methods of securing world-peace. Armaments may be regarded either as an insurance policy leading to peace, or as an *agent provocateur* leading to more war. In itself expenditure on defence must always be economically wasteful, however necessary it may be owing to faults of human nature or defects of education. The same may be said of prisons.

But it is the third point which is the main battlefield and gives rise to endless disputes, for there is no general agreement as to what is the "Common Good," and still less as to whether it can be better attained by Collective or Individual effort.

In one sense it is true, from the point of view of Wealth-production, that even the best taxes, though a necessary evil are still an evil. Every additional tax taken from an individual lessens his purchasing power and consequently his effective demand for commodities; * the circulation of wealth is by so much impeded, and the production of wealth, deprived of the stimulus of demand, suffers to a corresponding degree. There is, however, another side to this question. Individual spending may or may not be useful to the Community; wealth and welfare may find themselves in opposite camps. All spending must stimulate production certainly, but it may stimulate production of useless or even socially injurious things, and so deflect the always limited supply of Capital and Labour from more desirable paths. Collective spending does at any rate go to pay for goods and services which a majority of citizens have decided to be socially advantageous. Professor Urwick has said that it is doubtful, even when all the faults and weaknesses of States and Municipalities as spending bodies are remembered, whether any portion of individual wealth is better expended than that part which a rich man pays in rates and taxes.†

Evil of heavy Taxation.

Advantage of Collective Spending.

Adam Smith qualified his definition of the third function of Government by saying that the Public

* A tax obviously lowers the purchasing power of the taxpayer, but it increases the purchasing power of the tax-receiver to a corresponding extent, so that the effective demand for commodities remains unchanged in quantity though differently directed.

† See *Luxury and Waste*, chap. viii, E. J. Urwick.

Works and Services it provides must be such as are not only "in the highest degree advantageous to a great society," but are also "of such a nature that the profit could never repay the expense to any individual or small number of individuals." The development of joint-stock companies has changed the scale of private effort since Smith's day, but the spirit of this agrees with the usually accepted dictum that no public expenditure, whether imperial or local, should check or discourage private energy and enterprise, since these are the prime sources of progress and production. Nothing should be done by the State, it has often been observed, which can be *as well done* by individual effort. No money, in fact, should be taken out of the taxpayer's pocket which would produce better results if left there. This is only common sense. But who is to decide what are better results? In a democratic community it can only be the majority of citizens, for we can never hope to reach unanimity on such a question.

Limits to desirable Public Works.

Still there is a very fair measure of agreement in broad outline. Let us test this assertion by considering what, apart from Defence and the Administration of Justice, are the main objects of Public Expenditure in this country, and asking ourselves whether or no they are controversial objects. The list would include Public Health, the Relief of the Poor, Education, the Registration of Births and other vital statistics; the testing of Weights and Measures; the cost of Minting; the Post Office; Public Works, by which are generally meant roads, and sometimes trams and supply of water, gas, or electricity; and the interest on the

National Debt. Of these the Post Office is, or is supposed to be, and until recently was, self-supporting; and almost the only one of the others which to-day would be considered controversial *in principle* is the heading of Public Works. Clearly the principle here could be readily extended to cover railroads and all transport, or again to all mines, and, as we know, there is no subject more acutely controversial. But for the rest there are disputes as to the more or less which it is right and necessary to spend on any one of them, or which the nation can afford to spend, but not as to their being necessary services, rightly controlled and administered by the State.*

Agreed and controversial Objects of Public Expenditure.

The first test of any tax, new or old, is whether the service it is to provide is really necessary in the interests of the community as a whole, and whether it can be better provided by public than private action. The services enumerated above appear to answer this test satisfactorily. The objection may be raised that Poor Relief and Free Elementary Education are a benefit only to special classes, not to the Community as a whole, but this is a short-sighted and superficial point of view. A diseased member is a danger to the whole body, and in this sense the rightful interests of any one class, rich or poor, economically free or oppressed, are inseparable from the interests of the whole.

Test of a good Tax.

The difference between an individual and a

* We see, in fact, that though individual energy is doubtless the prime source of progress, yet in certain fields it has been mainly and most efficiently exercised in public employment, notably in Hygiene and Education.

national budget is that the individual, if he is wise, reckons first what his income will be and then decides his expenditure accordingly, while the Chancellor of the Exchequer appears to reverse this process. First he decides what the needs of the State will be for the coming year, and reckons how much they will cost, and then he proceeds to raise the necessary revenue. This is partly a real and partly only an apparent difference. It is real and necessary up to a point, because though the individual's income is more or less known and definitely fixed beforehand, and will not be made greater or less by any change in his private requirements, the revenue is in a different case. It can be and is varied according as more or less is required and taken from the individual for national purposes. There is, in fact, a reserve in the pockets of the citizens, and it is therefore legitimate for the Chancellor to consider the needs of the nation in the first place, and the means by which he will raise the money in the second only. But in reality he has not such a free hand as this might seem to imply.

The National Budget.

He must frame his budget with reference to the people's ultimate power of payment, that is to say to the national dividend. It is the private wealth of all the private citizens which decides eventually how much *can* be raised by taxation. There is a point beyond which if the springs are drained too deeply they dry up and fail at the source, and the nation loses future revenue as the price of having tried to raise too much in the present. This is a case of killing the goose which lays the golden eggs.

The National Income, or Dividend.

Should Taxation be used for other than Revenue Purposes?

Until recent times it was for long accepted as almost axiomatic that a tax must be genuinely for Revenue purposes only, and not imposed with any ulterior motive or used as a backstairs to reform. This would not be universally endorsed now. There are social reformers who would urge that if some needed reform—say national temperance, for instance—can be better realised by means of drastic taxation than by direct legislation, why rule out this method? True, it might fail to raise revenue, which is supposed to be the object in view, but this does not concern them, since they are avowedly aiming at the extinction of the drink traffic. In the same spirit they welcome death duties and super-taxes, not simply as a method of raising necessary revenue from those best able to bear the burden, but as an instrument for the better redistribution of wealth. There are Protectionists, too, who frankly desire a tariff, not to raise revenue but as a means of encouraging certain home industries and fostering certain political ideals. With these different objects we may or may not sympathise, or we may sympathise with some and repudiate others; yet it may well be urged that the old conception of keeping finance entirely separate from these controversial fields had much to recommend it. If each item in the Budget must be scrutinised not only on its own merits, but in order to detect hidden motives, the path of a Chancellor of the Exchequer will be even thornier than at present. It seems better that different issues should not be confused and sheltered one behind the other. Let the battles of social reform be fought and won in the open

—a good case can stand on its own merits !—and let the Budget continue to be what it professes to be, simply the Chancellor's estimate of expenses for the coming year, and statement of how he proposes to meet them, with no ulterior object, whether good or bad.

NOTE.—With regard to the *fairness* of a heavy taxation for public purposes, Mr. J. A. Hobson makes a strong case in his interesting book, *The Industrial System*. He lays down with regard to the right "division of the product," that each agent of production should be paid as much as but no more than is necessary to evoke its best powers, not only in the present time, and at the present standard of efficiency, which he calls "maintenance," but to provide for development and progressive efficiency, which he calls "costs of growth." The remaining surplus is, as he truly says, the bone of contention, and its division has so far been settled not on any law except the law of superior force. He claims of this a much larger share for the State, which he says ranks as a co-operative agent alongside with the other three. For: "a strong progressive State is essential to the stability and progress of Industry." Taxation is from this point of view regarded as the share of the product justly due to the State for its services in helping the creation of wealth.

CHAPTER XVIII

TAXATION—II

ANY good system of taxation must satisfy certain fundamental requirements. It must be such that all citizens contribute to it in some degree. It must be *just and equitable as between different citizens* in their capacity to pay. It must *do its job and get the necessary money*. It must be *simple and economical to collect*. It must be *certain*, and as *convenient* as the nature of the case allows.

Tests of a good System of Taxation.

Taxation is not a matter of abstract, academic theory, but of practical everyday life. You cannot lay down hard and fast rules about it after the manner of the Medes and Persians. What suits one country and one stage of development may be unsuitable to another. Let us consider briefly the merits and demerits of various forms of taxation, as they affect our own country and our own time.

Different Methods.

Our public expenditure is divided into two parts, Imperial and Local. The Imperial is, naturally, devoted to those services which are of importance to all citizens alike. Defence clearly comes under this heading.

Imperial and Local Expenditure.

Local expenditure, on the other hand, is, as the words suggests, to meet the various special needs of different localities, which are not all alike, and which are better understood and provided locally. Street cleaning and lighting, parks, libraries, etc., are matters for local expenditure, and the funds for these are raised locally by means of *Rates*. Imperial expenditure is provided for by *Taxation*.

Rates and Taxes.

There are many services, however, which have both a local and an imperial importance, and they are supported out of both rates and taxes. A notable instance of this is Education, the dwellers in each area paying a rate to defray the expenses of the local schools, which rate is supplemented by a Government grant, paid ultimately by all taxpayers.

Direct and Indirect Taxes.

Broadly, there are two main divisions of taxes; they are either Direct or Indirect. The important difference between them lies in their "Incidence," as it is called; on the question, that is to say, of where the burden of the tax is intended to fall. Does the taxpayer himself bear it? or does he merely advance the money so to speak, and recover from some one else? The Income Tax is the standard example of a Direct Tax; here the burden falls and is intended to fall on the man or woman who pays it.

The Incidence.

Customs and Excise, on the contrary, are typical Indirect Taxes. Excise are inland duties levied on articles of consumption manufactured in the country. They are, so to speak, the share "excised," viz. cut off, for the use of the State. Customs are import duties similarly

levied on foreign goods. These taxes are destined to be passed on to others. The importer of tea pays a Customs duty, the seller of whisky an Excise duty, but in neither case do the merchants bear, nor are they intended to bear, the burden, which is simply shifted through various stages on to the consumer. This is what is meant by " shifting the incidence " of a tax.*

Customs and Excise.

One great *advantage* of Indirect Taxation is *supposed* to be that people do not notice it, and therefore do not mind it. Few people realise that each time they drink a cup of tea or eat a sweetmeat or smoke a cigarette they are paying a tax which has been added to the price of these goods. The alleged fact is therefore probably true, but from one point of view it is *not* a merit but constitutes a grave *objection* to the method. For it is depriving citizens of their political education. It is generally admitted that it is demoralising and certain to lead to wasteful extravagance to allow people to vote taxes which they will not be called upon to share. But it is hardly better from the point of view of civic development that people should acquiesce in taxes because they are unaware of them. What is wanted is more, not less, awakened consciousness of duties as well as rights; not that people should be treated like irrational

A Disadvantage of Indirect Taxation.

Political Education.

* Customs duties, though they are on imports, must not be confused with protection duties. Customs are purely for revenue purposes, not for protection of home industries. If a Customs duty is imposed on some article which is also made at home, then an equal Excise duty is imposed on the home article to balance it.

children, tricked into something necessary or supposed to be for their good, but that they should face and understand it, connect cause and effect, and then accept or reject with a full sense of civic responsibility. For this reason the practice of lumping together rent and rates, in the case of working-class dwellings, is much to be deplored. A rise in the rates should be clearly distinguished and understood as the price of some communal advantage, the value of which could be weighed and criticised. But at present it is vaguely considered as a rise in the rent, and frequently attributed to an arbitrary imposition by the landlord. In Scotland until lately the better practice prevailed, but it has been abandoned, owing presumably to the trouble and expense of collecting small rates from weekly tenants. The same difficulty stands in the way of a small direct tax on all weekly incomes, which should, of course, be coupled with an equivalent reduction of indirect taxation. It would be so salutary and educational as to be worth doing in spite of practical difficulties, but there is no doubt that it would be very unpopular. The great unwillingness of the wage-earning part of the community to pay a direct tax is largely a matter of education. There is still the old inherited attitude towards the State as a tyrannical outside power. But Democracy, rightly understood, changes our conceptions of the rightful functions of the State. Citizens have duties, self-imposed, as well as rights. And the taxpayers in a democratic country can say, " We are the State,"

Civic Responsibility.

Difficulty of Direct Taxation on small weekly Incomes.

The Democratic State.

"I am the State"

in a truer sense than ever did Louis XIV when he made his proud boast: "L'Etat c'est moi!"

But in any case Indirect Taxation could not be altogether done away with. No single tax, whether

Advantages of Indirect Taxation.

on Land or Income, could satisfy the test of Justice in complex modern communities. Wealth is derived from so many varying sources, and taxation must try to tap them all with a moderate and impartial hand. A real advantage of indirect taxation is, moreover, that it is spread over every day in the year, which suits many people to whom it would be inconvenient or impossible to pay their contribution to the State in one or two lump sums.

The practical question then which arises is, what are the proper Objects of Taxation? (The Objects of

The Objects of Taxation.

Taxation are the articles taxed, and the people who pay them are called the Subjects of Taxation.) Our first thought would naturally be that Luxuries are marked out as proper Objects, and in an ethical sense they are, of course, entirely suitable, as the tax would fall on those who by their very purchase of such things showed that they were best able to bear it. But unfortunately, from the Chancellor of the Exchequer's point of view, they are *not* suitable, for the reason

Luxuries or Necessaries?

that the demand for luxuries is extremely "elastic," as it is called. (See Chap. XIII, on Wages.) A heavy tax will generally decrease the demand to an enormous extent, and thus the main object of raising revenue will be defeated.

Necessaries, on the other hand, are extremely

inelastic, and taxes on them would produce a very large revenue. They, however, are totally inadmissable Objects, for the reason that they would place the burden on the shoulders least able to bear it, because a much greater proportion of the income of the poor is spent on necessaries of life.

We seem to be rather between Scylla and Charybdis, but fortunately for revenue purposes there remain comforts, or what may be called "conventional luxuries"; such things as tea, coffee, tobacco, and all alcoholic drinks; things which are not necessaries, but which at the same time people who have got accustomed to their use are very apt to regard as such, and to strain a point of their budget rather than do without them. These, as a matter of fact, are the articles chiefly taxed, and quite rightly so.

Conventional Luxuries.

Having fixed upon certain taxes it is highly desirable to stick to them, and not be always chopping and changing. Nothing upsets production and commerce like uncertainty. There are few conditions, however drastic, to which business cannot adapt itself given a little time, but a sense of insecurity is fatal. It is also extremely difficult to calculate beforehand what the effect of a new tax or what its incidence will be, and how far it will disturb industry or be a good revenue raiser.

Desirability of Certainty.

We must now turn to Direct Taxation, and consider its Subjects. In other words the question of practical importance is who should pay? and how much ought each one to pay? With Indirect Taxation the

The Subjects of Taxation.

Subjects largely determine this themselves. No one need smoke or drink, and if they do not they will avoid certain taxes altogether. This they cannot do with direct taxes. Certain incomes, those below £135 for an individual, or £225 for a married couple, are exempt altogether, and there are other abatements and allowances, but above these limits every one contributes. Then, how much? It is not so easy to settle, bearing in mind that first principle of Justice, as might be supposed. That each person should pay an equal amount, a poll tax in effect, would be so manifestly unjust, not to say absurd, that we can dismiss the idea without discussion. Payment in proportion to benefit has been suggested, with the idea that this would justify the heavier taxation of the rich on the ground that they, owning property, profited more by the expenditure on Security and Legal protection than others. It can, however, be argued as against this that the poor profit from other State activities, such as Free Education and Poor Law, from which the rich derive no direct benefit. An argument which cuts both ways is useless, and we come to the conclusion that it is impossible to gauge the relative proportions of benefit derived by various taxpayers.

Alternative Principles of Payment.

In Proportion to Benefit.

The principle which long dominated British taxation was that of payment in proportion to ability, which was interpreted to mean in proportion to income. This had the advantage of simplicity, and on the face of it seemed mathematically fair. So it was, but it

In Proportion to Income.

was not ethically fair. The man who pays 5 per cent. on an income of £10,000 a year pays a large sum, and in exactly the same proportion as the man who pays it on an income of £300, which is a small sum; but he does not make a proportionate sacrifice. Equality of Sacrifice is the new ideal aimed at, and it has been well said that the question is no longer how much is taken in taxes, but how much is left after they are paid? This gets nearer to real ability to pay.

In Proportion to Sacrifice.

We see the principle more and more recognised in the sliding scales of Income Tax and Super-Tax and Death Duties. It is noticeable, too, in the distinction now made, and at one time hotly contested, between earned and unearned income. It is not an invidious moral distinction, but a reasonable economic one. A man earning £1,000 a year is not economically in as good a position as a man with an independent income of the same amount. He has extra expenses in the way of insurance, provision for old age and for his dependants, and equality of sacrifice is only approached if this is recognised and the two are taxed at a different rate. The same consideration applies to exemption for children, etc.

The Sliding Scale.

Earned and Unearned Incomes.

Now Income Tax satisfies fairly well the tests we laid down, of productiveness, simplicity and economy of collection, certainty and convenience; not absolutely, of course, which is not to be expected in this imperfect world, but favourably compared with others. And when safeguarded with proper exemptions and an adequate

Qualities of Income Tax.

sliding scale it is not repugnant to Justice. Economists, however, view with great apprehension its maintenance at a high figure, except as a war measure. They are quite right, for a high Income Tax discourages saving, checks the accumulation of capital, and so reacts unfavourably on industry.* Yet what alternative is there?

Disadvantages of high Income Tax.

So far we have considered ordinary taxes and ordinary budgets only, but now let us glance for a moment at war finance. During the war, as in all wars, it was impossible to meet current expenses out of annual revenue only. Recourse had to be made to Loans. To some extent this was inevitable, but many people now think that the method was resorted to far too freely, and that a much bigger proportion of the burden ought to have been met out of taxation. Loans do not do away with the necessity of taxation, they only postpone the evil day. They put the burden on the future, in short, instead of on the present. As we know, we all bought War Loan, that is to say we lent our savings to the Government, and the interest on these debts must be paid. Moreover, it is not only the Interest, but a question of the redemption of the Principal.

War Finance.

Loans.

Here a word of brief explanation is necessary. The National Debt consists of what is known as Funded Debt on the one hand, and Floating Debt on the other, and the Funded Debt is frequently spoken of as

National Debt.

* These, however, are disadvantages attaching to very high taxation of any kind, regardless of the form of the tax, and are not specially characteristic of Income Tax as such.

the permanent National Debt. But we must distinguish here, and Funded Debt may conveniently be divided into two parts. On both of them the Government is, of course, bound to pay interest at the rate guaranteed by the terms of the Loan, but in the one case it does not promise to "redeem" the debt at any particular date, though it may do so, and as a matter of fact generally provides a sinking fund for gradual redemption, thus reducing the amount.* (It should be explained that "redeeming a loan" means repaying the principal.) But since no date is fixed for the redemption, this part of the Funded Debt may be fairly described as permanent National Debt, on which the interest is a permanent national charge. Consols are the standing instance of this. But Funded Debt *may* also be national debt which Government does undertake to redeem at some fixed though comparatively distant date. It is thus not accurately described as permanent, though no doubt it is permanent as compared with Floating Debt. An instance of this was the Funding Bill of 1920, which converted part of the War Loan due for prompt redemption into Debt not to be repaid for certain definite periods of forty or fifty years, etc.

Funded Debt.

Redemption of Debt.

Now most of the War Debt was Floating Debt, raised by means of Treasury Bills, Exchequer Bonds, etc., etc., and bound to be redeemed at fixed dates in the comparatively near future. Where is the money to come

Floating Debt.

* Unless it has undertaken *not* to redeem it before a certain specified date.

from ? A fresh loan can, of course, be floated to pay off old debts as they fall due. This is practically what a Funding Bill does, and it is probably the best thing to be done with a view to gaining time. But obviously it only postpones and does not meet the situation. The only possible means of meeting it and finding the money seems to be either by a very steep Income Tax, which as we have seen has serious objections of its own, or by a Levy on Capital, which has been much urged in recent years.

A Capital Levy.

Now a Capital Levy, whatever its other merits may be, would seem to be just as bad for industry as the steepest Income Tax could be. There are also immense practical difficulties in the way of realising it, into which we cannot enter here. Some distinguished economists have supported it, but the mass of business opinion is against it, and their arguments do not lend colour to the accusation that they are actuated by selfish motives. The idea of clearing the War Debt at one fell swoop, and starting with a clean slate, is a very attractive one, and would be worth a heavy sacrifice. It is not, however, seriously considered possible to wipe out the *whole* War Debt by a Levy, only to reduce it either by half or in some other proportion.

The Question of Confidence.

But the strongest argument against the Capital Levy is that it would deal a staggering blow at confidence, and confidence as we saw before, is the foundation of all prosperity, whether in industry or commerce or any other walk of life. A thing that has been done once can be done again in an emergency. No Government can pledge its successor that a Capital

Levy will never be repeated. If for the necessities of War, why not for the necessities of Peace! And that uncertainty would be fatal. Who would save capital and build up industries with the chance of confiscation hanging over him? Hardly any theoretic arguments could outweigh the practical disaster of such a fear.*

E.P.D.

What of Excess Profits Duty? It was, as its name suggests, a duty imposed on all profits above a certain standard, calculated on the averages of previous years. It was a reasonable war tax, when owing to the circumstances colossal fortunes were inevitably piled up out of the necessities of the country, and many people found themselves in the position of unwilling profiteers. After the war it became, however, indefensible. It pressed most unfairly on young firms that were only just beginning to realise a profit when the duty was imposed, after passing through lean years with no profit at all. It acted, moreover, as a fine on good management and efficiency, which is indeed the crucial difficulty in all schemes for limiting profits. When, owing to the falling markets and industrial depression it was proved not only to have these defects but to be quite useless as a revenue raiser, it was finally abandoned.

Other taxes of a normal kind, which are always imposed year by year, are Stamp Duties, Licences of

* The whole subject of a Capital Levy is so complex and difficult that it is impossible to do more than touch on it in a primer of this kind. Few people will care to dogmatise on the subject until the next few years have shown how the country bears the crushing burden of debt charges running into hundreds of millions annually, when prices have fallen and trade is bad.

various kinds, such as those for keeping a public-house or grocers' licences to retail alcohol, licences on motor cars and bicycles, men-servants, armorial bearings, dogs, shooting, etc. But they account for a comparatively small part of the revenue, and far and away the most fruitful and important taxes are Excise and Customs, and above all Income Tax and Super-taxes. These are the real backbone of the National Revenue.

Stamp Duties and Licences.

NOTE.—1. The tendency in Britain of late years has been to increase direct relative to indirect taxation.

2. An *ad valorem* Customs Duty would be more in keeping with equity than the flat rate which we practise, but it would be much more difficult and expensive to collect.

3. Death Duties, as they are called, include what are known separately as Estate Duty, Legacy Duty, Probate Duty, etc. They are the share claimed by the State when, by death, wealth passes from one owner to another. Such taxes on inheritance of property seem in principle clearly justifiable and desirable, since it is the State which guarantees and safeguards the inheritance. In practice also they have been found very valuable as a revenue raiser, and they have tended quietly but steadily towards that greater equality in the distribution of wealth which is socially so desirable. They are in essence a levy on Capital which is not liable to the same objections as those which can be urged against a general levy. On the other hand, they cannot be extended to an unlimited extent without introducing a sense of insecurity, and stimulating means of

evading them. It must be remembered, too, that they sometimes bear very heavily in the case of property which is not easily realisable, such as large houses, works of art, historic furniture, etc., and especially when several deaths occur in the succession at short intervals.

CHAPTER XIX

COMPETITION AND MONOPOLY—I

THIS is not an easy subject to deal with in a small space, and we can only look at it in very broad outline.

Our Industrial System.

Our Industrial System is supposed to be based on free competition; the freedom, that is to say, of Labour and of Capital to enter any market and sell their powers as they can and will; the freedom of the enterpriser to produce what he chooses, unhampered by any regulations or restrictions, and subject only to the Laws of Supply and Demand.

Demand and Supply.

In earlier chapters (see pp. 9, 15, and 32) we saw reason to believe that the true causes of Exchange Value were Demand on the one hand, depending on the Final Utility * of the goods offered, and the Costs of Production on the other side, determining the Supply Price. Under Competition these two elements, the Pull of Demand and the Push of Supply, as Professor Urwick has called them, fight the battle of prices out between them, and they are automatically adjusted. It is claimed, and

* Utility is used here in its economic not its conventional sense. An article of luxury may be quite "useless" in the ordinary meaning, yet if it is desired and there is "effective demand" for it, from the economist's point of view it has utility.

in general truly claimed, that the tendency of free competition is to keep prices down, and the tendency of monopoly to force them up. If this were always so, and if there were no counter-balancing disadvantages to weigh against the undoubted advantage of cheapness, it is obvious that all sane consumers must prefer a freely competitive system. It is not, however, quite so simple as that.

Competition and Monopoly.

In the first place the only period when uncontrolled competition was actually tried, viz. in the *laissez-faire* period after the Industrial Revolution, it was found that it resulted in such great social evils as not only imperilled the Welfare, but ultimately threatened the economic Wealth of the country. Once the right of self-protection by a group through combination was conceded, and Trade Unionism established the principle of collective bargaining, the absolute freedom of individual competition had flown. And on the other side forces assailed it too.

As a matter of fact there has been a great growth of monopoly during the last twenty years. We see the spirit of it in some of the schemes of Syndicalism and Guild Socialism on the Labour side, and also in Kartels and Trusts, the combinations of Capital. Is this an evil ? It is at all events open to very great dangers. It will be well to start with a clear understanding of what we mean by the word "monopoly." It means, literally, exclusive command or possession—the sole right of dealing in anything. There are three different classes of monopolies ; they may be legal, or natural, or the result of industrial combination.

Recent Growth of Monopoly.

Legal Monopolies.

The Post Office is a national legal monopoly. It is not run for profit, but when it produces revenue over and above the costs of the service, that revenue is, of course, really its profit.

Copyrights and patents are private legal monopolies. They may be criticised in detail as running too long and being unfair to the public, but so long as private property is recognised it seems only right and logical that people should be protected in the fruits of their brain, their compositions or inventions, as well as in their material goods.

Natural Monopolies,

Natural monopolies depend sometimes on geographical facts. There is the case of anthracite coal in South Wales, where the whole known supply is in one small area, and again the case of potash, of which there was a practical monopoly in pre-war Germany.* Or they may depend on the practical necessities of organisation. By the very nature of things you cannot have free competition in the supply of gas or water! No body of people will or can go to the gigantic expense of the necessary plant, unless they are guaranteed a monopoly for the whole town or district for a

* The expression "natural monopolies" may be objected to, if the term monopolist is restricted to its strict meaning of single seller. Anthracite and potash are not monopolies in this sense, for they are not confined to a single seller, they are only instances of great natural scarcity. And it may also be urged that the monoply in the case of water or gas supply, etc., is not "natural" but technical, depending not on Nature but on human organisation. Medicine, again, is only a monopoly as a matter of social regulation and agreement between doctors. Nevertheless, the terms natural monopoly and professional monoply are well understood, and it seems convenient to retain them.

sufficient period to repay their outlay. When this is granted they have both a natural and a legal monopoly. The question naturally arises whether such monopolies are better held by municipalities or by private companies. This is not easy to decide, since it depends so much on the individual case, and the character and business capacity of both the municipality and the private company. In any case if conceded to the latter there must be conditions to ensure the quality of the service, and the terms on which it is supplied, and such conditions are, as a matter of course, embodied in the charter making the concession to the company.

Question of Municipalisation.

Sometimes, too, monopolies must be given to a group of producers for the sake of ensuring a certain standard of efficiency in the service supplied, and so protecting the interest of the public. This is the case with Medicine, including Surgery and (quite recently) Dentistry, and another instance is the Law. These are great corporations, possessing a practical monopoly of these professions. The monopoly is not, of course, conferred on any special individuals by letters patent, nor is it the privilege of a class, since every one is free to become a doctor or a lawyer if he so pleases. But he has to pass approved tests and examinations before he is admitted as a member of either profession, and can legally practise. Such a test is a very valuable protection to the consumer, and might desirably be enforced in the case of the educational service. At present there is nothing to prevent the most intellectually incompetent person from setting up a private school, and though it is true that there is room for

Professions with a Monopoly.

every sort and kind of real education, and the more educational experiments the better, yet at the same time a teacher's test ensuring reasonable qualifications would be welcomed by most people.

Now before we go into the question of monopolies which are neither legal nor natural, but which depend on industrial combination, it is important to remember that as a rule competition and monopoly are not starkly divided by a great gulf, but that there is every shade and grade between them. For the logic of compelling facts often laughs at theory.

Ethics of Competition.

We have been accustomed, perhaps, to think that the principle of competition must be right, because it seems to mean liberty and open fields for all, and that monopoly must be wrong, because it seems to stand for selfish exclusiveness. But competition is like everything else—it can be used or abused; indeed it has two faces. It may be either a healthy rivalry in no way incompatible with the true spirit of co-operation, expressing a natural and valuable human instinct, or it may, in its deadliest form of unscrupulous over-reaching, be indeed what it has been called—the Law of Death. It may result in limiting over-swollen profits, and bringing commodities within reach of the poor. That is good. But it may equally result in forcing wages down, and producing shoddy trash, and that is bad. It may stimulate new enterprise, and spur ability on to increased economy and efficiency, and that is clear gain. Or it may force honest industry out of the market and give the prize to vile sweating, bringing discredit on the honourable functions of Industry and Commerce. We conclude then that it

is a mighty force, but that it needs to be tamed and harnessed if it is to lead to the Welfare as well as to the Wealth of Nations.

Turning, however, from the ethics of competition, we want to inquire into its practical working, not as between Labour and Capital, but as between the Producer and the Consumer. We want to see *how* it regulates prices, and what is meant by the phrase that prices are settled by the "higgling of the market." It will be easier to understand this if we take a concrete instance.

The Working of Competition in fixing Prices.

Suppose a butter market in the pre-war days, when there was no Government controlled price, and imagine that there are five competing producers. For the sake of simplicity we will imagine that each brings the same amount of butter to market, say, 50 lbs. Owing to different farming conditions, however, their Costs of Production are not the same. These costs decide the "Supply Price," which means the price at which each can enter the market, or in other words, at which he can afford to sell. Farmer A. could supply his 50 lbs. at 1*s.* 4*d.* a lb.; B. at 1*s.* 5*d.* a lb.; C. at 1*s.* 6*d.*; D. at 1*s.* 7*d.*; and E. at 1*s.* 8*d.* Now at 1*s.* 4*d.* a lb. there would no doubt be a ready market for the whole 250 lbs.; but Farmer A., who can supply at that price, has only 50 lbs., so he cannot meet the demand. Farmer B., therefore, enters the market with his 50 lbs. at 1*s.* 5*d.*, and, since it is obvious that people will not sell identical values in the same market at different prices, Farmer A. raises his price also to 1*s.* 5*d.* A certain number of purchasers, however, who cannot afford to give more

than 1*s.* 4*d.*, will go out of the market, and the demand will now, therefore, be for 200 lbs. only. (The figures are, of course, purely arbitrary.) But Farmers A. and B. can only raise 100 lbs. between them, so Farmer C. with his supply comes into the market. This raises the price to 1*s.* 6*d.*, and again reduces the demand, which we will suppose is now only for 150 lbs. If Farmers D. and E., with their more highly priced butter, attempt to compete, they will find no purchasers, for though there might be a certain demand for butter, say, for 50 lbs. even at 1*s.* 8*d.*, and perhaps for 100 lbs. at 1*s.* 7*d.*, still it is clear that nobody will pay that higher price when butter is available at 1*s.* 6*d.* D. and E. therefore go out of the market, and the "market closes," as it is said, at 1*s.* 6*d.*, because that is the figure at which the demand and supply meet. There are 150 lbs. which can be sold at that price, making a larger or smaller profit, and there are purchasers ready to take that amount at that figure, which is therefore called the " market price."

Example of the Higgling of the Market.

Now it may be said, what becomes of the high-priced butter ? Would it not be better to sell it at a loss ? Certainly, and, if there is no means of preserving it for a better market, that, no doubt, is what will happen. But Farmers D. and E. will not *go on* producing butter in order to sell it at a loss ! They will probably decide to sell milk instead, and on the next market day the supply of butter will be accordingly reduced. Farmer A., on the other hand, may have been encouraged by his good profit to make more butter. If, however, the supply is less than the demand the price will go up again, and D. and E. may

find it worth their while to re-enter the butter market. This perpetual see-saw, the adjustment of supply and demand, is called the higgling of the market.

Meaning of Market.

We have used the term " market " here in its old-fashioned sense of a concrete place where goods are on sale, but it should be noticed that the word has a much broader significance than this, and means any area, however wide, over which goods can compete on terms of approximate equality. The size of modern markets depends chiefly on three things. First, on the character of the saleable commodities. Are they quickly perishable or not ? Clearly the cabbage market must be limited in area, while the diamond market is world-wide. Second, on transport facilities. And third, on the means of preserving perishable goods. When it was found possible by refrigerating processes to transfer frozen carcases from New Zealand and America to compete with freshly killed meat in these countries, the meat market was widened to an enormous extent.

Question of how far Capital and Labour are mobile.

The butter market is a typical stock instance, much used to illustrate the working of competition, and shows it to advantage. For here the conditions are such that supply can promptly and comparatively easily react to demand ; Capital and Labour flow in and out of the market ; and, the goods being perishable and rapidly consumed, there is less probability of competition resulting in over-production and a glut and accumulation on a large scale, with all the ensuing disastrous consequences. Theory, in fact, coincides with practice ; but it is not always so, or at least not immediately. Ultimately, no doubt, Capital and

Labour will always go to the market where there is the best profit, and by competing in that market and increasing the supply they will bring prices and profits down to the marginal point. But the process is not always easily and quickly achieved. Labour is not very mobile, and though Capital is supposed to be so, and to have the wings of a bird to fly away, yet when it is invested in expensive fixed plant, it is not so easy to spread those wings.

Competitive Prices *v.* controlled Prices.

Yet certainly the competitive way of letting prices fix themselves automatically is more satisfactory to most people than the method with which we became familiar during the war, of having them arbitrarily fixed by a well-meaning committee or official, who might or might not blunder.

If this seems perhaps an unfair case to take, since there was little or no basis of experience in the State fixing of prices in war-time, we can point to the case of railways and the controlled prices there, with some of the ensuing consequences.

We must now turn our attention again to monopolies.

CHAPTER XX

COMPETITION AND MONOPOLY—II

Wastefulness of Cut-throat Competition.

WE have seen that there are cases where an element of monopoly is inevitable, and where it is, or where at all events it is capable of being, to the advantage of the consumers. For production is ruled by the fundamental fact that the producers must live, and unrestricted competition is often wasteful and extravagant, and raises the costs of production above what would otherwise be necessary. When rival producers find their very existence threatened by cut-throat competition, which, if continued, would reduce prices below the margin at which production can be profitable, they are apt to come to an agreement among themselves to cease this suicidal conflict and maintain prices at a certain level. Now, when this happens it is not difficult to see that it might be better for the consumers not to have too many competitors in the field. M. Gide takes the instance of two or three competing railways running between two towns. At first each tries to snatch traffic from the other, offering rival attractions and facilities, holiday excursions, reduced workmen's fares, and the like, and for

Combination inevitable.

the time the consumer evidently scores. Soon, however, the railway companies realise that this is a ruinous struggle and does not pay. There is only a certain amount of traffic to divide, and the attempts each makes to undercut the other eats up all the profit. They decide, therefore, either to amalgamate or come to a mutual arrangement as to prices. Now these must depend at their bottom level on the Costs, which in the case of railways include the very heavy expenses of construction as well as of running the service. The traffic remains the same, but it has to pay the costs of two or three undertakings instead of one, and fares and freights must be higher accordingly.*

Danger of Monopoly.

But is it not true, on the other hand, that, if there were a monopoly, the one company would have it in its power to put up the fares to any extent it liked, quite disproportionately to the Supply Price; and if so, the community would fare even worse? This is not quite true, for when a concession is given to a railway company certain conditions are always made, and the fares cannot, as a rule, be raised without consent of Parliament. Even without this, however, monopoly cannot be absolutely autocratic and put up the prices to an unlimited extent, for the fluctuating force of demand still makes itself felt, and such a policy would not pay. But it is true that any private company will under normal circumstances fix the fares at that

Safe-guards.

* Railways are, of course, a "technical monopoly," but the same arguments would apply in the case of a manufacturing industry where monopoly is not a technical necessity.

point at which they will bring in the biggest profit, without regard to other considerations.

The Fixing of Price under Monoply.

Let us take an example. Suppose a railway company, having a monopoly, and able to fix fares at three alternative prices for some given distance—3*s*., 2*s*., or 1*s*. That is to say, the service could be provided and leave a margin of profit at any one of these prices. If the fare were fixed at 3*s*. some 1,000 people might use the service, the supply price would be so much per head, and the profit for each passenger so much. We will suppose the profit to be 1*s*., making a total of £50. If the fares were fixed at 2*s*., then, it is calculated that 3,000 people would use it; the supply price would be less in proportion, and the profit per person also less, say 9*d*. But the total profit will be more than double, £110 10*s*., so it will have paid the company to reduce the fares. Suppose now that they are put down to 1*s*., and 8,000 people use the service. The supply price per person will fall again, and the profit per person will fall, say, to 3*d*., and this makes a total profit of only £100. The private company with a monopoly will clearly return to 2*s*. fares.

Argument for National Ownership of Monopoly Services.

Now this presents us with an argument that can be fairly used for nationalisation or municipalisation. For it may be said, if competition is practically impossible in these cases and monopoly is necessary, it should be in the hands of and run for the benefit of the whole Community, and not of a private firm. It might pay the country better in health and happiness and ultimate efficiency, that

8,000 citizens should have the daily advantage of cheap transport, even though a smaller profit were made. This is quite true, and it is true that no private company can be expected to take this long and disinterested view; but yet there are many dangers and difficulties about nationalisation. The popular demand for cheap fares (with the pressure of votes behind it!) may be pushed to a point when there will not only be no profit, but the service will be running at a loss, which certainly will not pay the country. The efficiency and economical management of the railway may suffer under bureaucracy, when there is not the stimulus of private profit. And there are many complex questions connected with the subject which we cannot go into here, and forcible arguments on either side. It may be that in the case of railways the best solution is some system of amalgamation into groups in the interests of economy, while leaving an element of competition between the groups to stimulate efficiency, and with a final control by the State in the interests of the consumer. It should be noted that the objections to nationalisation of a whole industry by no means all apply to the municipalisation of a local service such as trams or gas or water.

Stimulus of Private Profit.

Apart from municipal enterprises, however, there are two sorts of Industrial Combinations which have increased very rapidly in modern times, known as vertical and horizontal. The first, as the name suggests, work upwards and downwards, so to speak, uniting various industries which have not been in competition, but

Vertical Combinations.

working in close connection with each other. Thus a great steel works will absorb in one direction the iron works and still further back the coal mines which are necessary for the supply of their raw material, and, in the other direction, factories, warehouses, and retail places for the marketing of the finished commodities. These vertical combinations seem all to the good, for they result in considerable economies, and they do not necessarily, or directly at all events, destroy competition in the steel trade. Another instance would be a butter-making firm owning its own farms for the supply of milk, and its own dairy shops for selling the butter, etc.

Horizontal Combinations.

The horizontal combinations, on the other hand, are combines of one sort or another between previously competing firms in the same line of business. They have some great advantages, but also some great dangers, for they do threaten competition to an extent which may have disastrous consequences. Trusts and Kartels are of this nature.

Kartels.

Kartels need not delay us long. They are a loose combination, of German origin, simply for the purpose of keeping up prices. To tighten them and see that the agreements are observed, there is also a sort of Super-Kartel, or Syndicate of Kartels, which does all the marketing, and settles the amount which each Kartel is to produce. This has the disadvantage of discouraging the expansion of well-managed businesses and keeping inferior ones in existence. Kartels also lead in practice to dumping, that is, selling in foreign countries, where the Kartel rule does not run, at prices below the costs of

production, in order to clear off goods which cannot be sold in their own country at the prices fixed by the Kartel.* Thus their own people suffer from high prices, and foreign producers suffer from unfair competition. Kartels do not moreover assist economy, as each firm remains isolated, with its own overhead expenses and separate management.

Trusts.

Trusts, on the other hand, tend definitely to amalgamate a lot of competing businesses into one vast concern, and to swallow up all small independent enterprises. America is the home of the Trust, and feeling has risen very high there and given rise to anti-trust legislation. The Trust, however, has shown itself very wily and adroit in choosing new forms which obey the letter of these laws, yet completely evade their spirit and defy them.

Dangers and Evils of Trusts.

Let us see what are the good and evil points of Trusts. On the bad side we have to reckon that the enormous power they wield tends to become an intolerable tyranny. Small enterprises are left with no freedom of choice. They may detest the Trust and infinitely prefer to manage their own small family business in their own way, but they cannot. They must either come under the Umbrella of the Trust, as it is called, *i.e.* adjust their prices to those of the Trust, or the Trust may, and in all probability will, deliberately ruin them. This it will do, not by open, fair competition, but by many sinister means, of which

* It must not, of course, be supposed that dumping is confined to Kartels, for, on the contrary, it is very universally practised.

temporarily selling below cost price till the rival is ruined is a notable one.

Take an instance that brings before one rather vividly how galling can be the petty tyranny sometimes exercised by a Trust, even in what may seem a trivial matter. A small tobacconist, something of a character, running his little business in Bermondsey on independent lines, made it his practice to present every purchaser of goods over the value of, I think, sixpence, with a small box of matches. (I should explain that this was in pre-war days, when their cost was negligible—perhaps a couple of pence a dozen.) One day a regular customer entered, bought his "packet of fags," and almost automatically held out his hand for the usual matches. The tobacconist sadly shook his head and explained that he was not "allowed" to give them. He produced a letter from the great Trust from which he obtained his supplies, ordering him in autocratic terms to cease his familiar and apparently harmless practice on pain of having his supplies cut off. No reason was given, but the regulation was intended no doubt in the interests of the Trust's agents, to protect them from the veiled price-cutting which is implied by giving something away, and which if abused may admittedly become a dangerous form of competition. The regulation may or may not be a good or necessary one. It is a nice point, involving many of the arguments as to Competition *v.* Combination. If a dealer has paid the wholesale price demanded, and finds he can sell the commodity at a cheaper than the fixed retail price and yet make a profit which satisfies him, it may be argued that it is in the interest of the whole

Community, and makes for the greater good of the greater number that he should be allowed to do so. At all events the law does not forbid him, and in any case the Trust clearly interfered with the individual right of a free-born Briton to manage or mismanage his own business in his own way so long as he was not breaking the law.

Another danger is, of course, that being an absolute monopoly with no Government control, the Trust is free to put up its Selling Price to any extent it likes, without any reference to the real Supply Price, and so exploit the consumer. Without either private competition or State regulation there is no limit to the price, except the limit of what the consumer can or will pay. Another way in which the consumer is liable to suffer under a monopoly system is in the deterioration of the quality of the goods. In the absence of the healthy stimulus of competition this is very liable to happen, and those who during the war were compelled to use French matches, of which there is a State monopoly, will have strong opinions on this point.

Yet another danger, in theory, is that the Trust would be able equally to exploit its workers, and reduce wages below a proper standard. In practice, however, this fear has not been realised ; Trusts pay, as a rule, very high wages.

A danger which has been very keenly felt in America is the immense political pull which these giant organisations can control, and the corruption to which this gives rise.

And yet again the Trust is undoubtedly the parent of the multi-millionaire, and most people feel that the

creation of such enormous private fortunes has very serious social consequences.

Advantages of Trusts.

As against this formidable list of objections we must put on the credit side, firstly, the tremendous economies which can be and are effected, and which often result not only in the possibility and the actual fact of paying the workers much higher wages while making a good profit, but also of supplying commodities to the public at an infinitely cheaper rate than separate competing firms could possibly do. Thus the consumer reaps a very real advantage, even though technically it may be true to say that he is "exploited" in the sense that he is paying a higher price than the Supply Price really necessitates. How are these great economies brought about?

For one thing, mass production must always be cheaper than small-scale production—it is the law of increasing returns. Take Ford's motor cars as an instance—for though Ford is not a monopolist, he is an excellent example of the economy of large-scale production. Owing to the enormous output and rapid turnover he is able to bring the division of Labour and Standardisation of Parts to a point undreamed of in small businesses. In the case of an almost complete practical monopoly, like Coats' cotton in this country, another expense that can be cut is advertisement,* which in the case of an industry

* With regard to advertisement it is right to note that even when competition is eliminated advertisement is often maintained on a large scale, and must, therefore, presumably be found good paying business. This is advertisement not for rivalry, but for the sake of maintaining demand by suggestion and interest. Even in the case of a complete monopoly there is always room for this. Soap, which is as near a complete

where competition prevails, must run into huge sums of money. In the case of a combine between competing firms in different parts of the country, cross-freights are saved, that is to say, a firm in Glasgow will not supply a customer in Bristol, and *vice versâ*, but the Glasgow and Bristol branches of the united firm will each supply the local customers and not pay the railways for long-distance carriage.

All this is common sense, and we cannot but see that the advantages to the consumer, if he is allowed to reap them and the whole saving does not go to swelling profits, are not to be despised. Sometimes also a combine is necessary as the only means of saving various competing firms from going out of existence, where the margin of profit is too small or non-existent.

Industrial Crises.

But the greatest advantage claimed for combines is that they greatly reduce the recurrence of those industrial crises called "cyclical fluctuations of trade," which are the cause of so much suffering and unemployment, and the despair of economists and social reformers.

There are, of course, many causes and many kinds of Unemployment. Some are due to Season, some to Cyclical Depression, some to the problems of Casual Labour and the Reserve Pool, some to personal causes, faults of character, or bad social conditions. The remedies for them are also various, and we

monopoly as any English industry, advertises as we all know very extensively. Moreover, no monopoly can be regarded as *absolute* and *final*, because of the Law of Substitution, by which some new alternative commodity may be put on the market.

cannot go into them here, except this one which affects the argument of the relative advantages of free competition or some form of monopoly.

Competitive Over-production.

It is generally believed that one of the chief causes of Cyclical Unemployment is what is called Competitive Over-production. Now, it is important to notice that in one sense there cannot be such a thing as over-production in the world as it is at present. That is, the needs of the world for goods and services are so great that it could take a practically unlimited supply *at a price*. But not always at a price that will pay the Costs of Production! The needs of our neighbours are indeed urgent enough, but their riches are insufficient. And that is what the economist means when he talks of over-production; that more is being produced than can be sold at a price which will yield a profit. This may be due to international policies which have closed the markets that could have absorbed the goods, or to the abnormal poverty following war, or to other causes. But even when there is no question of war or unusual disturbance it has been observed that trade seems to follow a cycle. It booms, and reaches the crest of the wave, then curves down until it reaches the bottom point of the trough of depression, dogged by its consequence of increasing unemployment, and then slowly rises again. And this constantly recurs.

Now how does competition affect the matter? It works in this way.

Under free competition everybody is, of course, free to produce as much as he likes. Suppose, then,

that in the boot trade, the stock example, the annual demand is estimated at fifty million pairs of boots, and for the sake of simplicity let us also suppose that there are only fifty boot manufacturers. If each of them agree to make only a million pairs, then obviously there will be no competitive over-production, but the supply will exactly meet the demand, and all the boot operatives will continue in steady employment. This, however, is not what happens. In the first place, demand is an uncertain thing, and it is impossible to say positively beforehand that just so many and no fewer and no more boots will be sold. But in the second place, even if the estimate is quite correct, the manufacturers do *not* agree together as to the number which each will produce. Each on the contrary hopes to secure a larger share of the market for himself. It is a period when trade is booming—manufacturers are sanguine, and each produces *more*, hoping to collar so much more of the business. Clearly each of them cannot realise his hopes! The total production may then be twice as many pairs as can be absorbed, and they cannot be sold at *prices that will yield a profit.*

An Illustration.*

What will the manufacturers do? They will draw in their horns and decide to go slow till the surplus boots are absorbed and trade looks better. Consequently they will produce much fewer boots next year, and this will mean either working short time, which involves under-employment to a great number, or dismissing hands altogether, which means total

* For this and the whole discussion on Cyclical Crises, see Sir Wm. Beveridge's book on *Unemployment*.

unemployment to a smaller number. Can they not go to other firms? No, for as the same thing is happening all over the industry, no one else is better able to employ them. This, you may say, accounts for the cycle of depression and unemployment in some one special trade, but how can it affect others which have not "over-produced"? And yet the cycle is said to be general not particular. Let us see how this happens. The people who are working half-time have only half their usual spending power. Those entirely unemployed have nothing probably but their insurance money, and their purchasing power is still more reduced. Obviously, therefore, they must consume less of everything, food, fuel, clothing, etc, than they have been in the habit of doing, and this is bound to reduce the demand and have a depressing effect on all these other trades. They then follow suit and dismiss their workers, who again can consume less, and so the circle of unemployment widens till the whole of industry is affected.

The Cycle.

Then after a time the superfluous glut of goods is absorbed, a fresh demand springs up, manufacturers take heart again and begin to produce more. Trade booms, employment is good, profits are high. And then the whole cycle repeats itself.

The evil of all this is so patent that there are people who consider it a final condemnation on Competition. Yet to kill all competition would deal a fatal blow at enterprise and the development of new businesses, for up to a certain point increased auticipatory supply is valuable—it tends to create a demand for itself and so is its own justification. Almost all

Condemnation and Justification of Competition.

new inventions, such as bicycles or motor cars, are first supplied in this way, in anticipation of demand springing up to meet them. A cure which would destroy more in future employment than it saved in present unemployment might well be worse than the disease. But yet the disease is so terrible that a cure of some kind must be found. Trusts claim that they would do much to promote stability of industry and prevent the miscalculations of over-production by an infinite number of small competitors, and the claim seems founded on reason. If they could indeed prevent or greatly mitigate these recurring crises, they would have done much to justify their existence. But the problem of safeguarding the consumer from the danger of exploitation by monopoly prices remains a very difficult one.

Inevitableness of Combinations. Need of large Capital.

Finally, with regard to such combinations and amalgamations as we have been considering here, we come to the conclusion that they are probably inevitable. In modern Industry large Capital is in many cases, though not in all, indispensable. It is not only for plant in the ordinary sense, but for reseach work, scientific laboratories, chemical experiment, and the equipment of a high order of technical skill. Individual firms are inadequate to the demand. Only the State on the one hand, or an amalgamation of competing enterprisers and capitalists on the other, can cope with it.

CHAPTER XXI

TRADE UNIONS *

So far we have only considered Amalgamations of Enterprise, and the Combinations of Capital involved by these. Now we must turn to Combinations of Labour.

Combinations of Labour.

They are very familiar to us under the name of Trades Unions, and we have many times alluded to them and to their work incidentally. But now we must examine them a little more closely.

And, as usual, we shall find it convenient to start with a definition. What is a Trade Union? Well, put in the simplest words possible, it is, in its economic aspect, a permanent combination of wage-earners (using that term in a wide and elastic sense) to protect themselves and their interests against the masters. That definition, however, does not give the whole truth, nor cover all the activities of Trades Unions to-day, because they have a political as well as an economic aspect. And in this political aspect they are not merely a business body of people protecting their own interests, just as any organised

Definition.

Two Aspects of Trades Unions.

* For this chapter see Mr. Lloyd's *Trade Unionism*. I am also much indebted to his lectures and those of Mr. Tawney and Dr. Lilian Knowles.

profession, say Medicne or the Bar, might do, but, as Mr. Tawney has expressed it, they represent the movement of a class, partly towards "Industrial Democracy," and partly towards a new political party with new social and economic ideas.

Two Ideals.

If we look back over the history of Trades Unionism we shall be struck by the fluctuations of its policy, and we shall find they are, because of these two different ideals, pursued naturally by different methods. On the one side the Unions have concerned themselves with the direct material improvement of working-class life, and directed their energies mostly in the direction of wages—a higher rate, better methods of payment, doing away with the infamous truck system, regulation of overtime, hours and conditions of work, and so on. On the other side they have aimed, and still more they aim to-day, at what Mr. Cole calls Self-Government in Industry.

History of Trades Unions.

This is not an Industrial History, and we can only glance very briefly at the interesting history of Trades Unions. They originated in the early eighteenth century, but only became important after the transformation scene of the Industrial Revolution. Then, with the introduction of power-driven machinery and mass production and factory life, a new and intolerable situation was created. The aims of the Unions in those days were simple enough. Simply to defend themselves against unbearable exploitation in the matter of wages, to improve conditions, and win a better standard of life, moral, mental, and physical. Their programme would be accepted with approval

by all parties to-day. And their methods were peaceful and constitutional in the main. They presented petitions to Parliament, setting forth their wrongs and grievances, and on the whole they were not ill-received—sometimes refused, but sometimes granted. It is difficult to reconcile this with the attitude of irreconcilable hostility which the governing classes adopted later on towards the Unions, but there seem to have been two reasons for the change, first the effect of the French Revolution, and secondly the new Political Economy.

Effect of the French Revolution.

As to the first we have to remember the panic aroused by the excesses of the Terror, and the deadly fear lest they should spread across the Channel. The horror of the Jacobin clubs was deep and genuine, and there was real fright that the Unions, under guise of peaceful industrial association, might really be political secret societies, actuated by the most sinister motives. This fear changed the whole course of politics in England, and the most moderate and urgently needed reforms received a violent check. Any shade of Liberal feeling was included in the hatred of Jacobinism. It found vent in drastic legislation of a repressive kind all over Europe more or less, and in England took the form of the Combination Acts of 1799 and 1800. These made the joining of any kind of association a criminal offence to be treated with severe punishment.

On the other hand you had working in people's minds the leaven of the New Political Economy. Adam Smith's theory of prices necessitated free exchange and free competition, and as then stated

appeared to be quite incompatible with Trades Unions or with anything else that tried to raise wages or improve the standard of life in any industry. It was argued that such an attempt in so far as it was successful in one direction could only be at the expense of others, and very injurious to industry as a whole, but that in the main it was futile as it flew in the face of the natural laws of economic science. (See Chap. XXIII, Iron Law of Wages, Wage-Fund Theory, etc.) In such an atmosphere combinations of Labour could only be regarded with a mixture of hatred and contempt.

Effect of the new Political Economy.

It was then, when all hope of peaceful redress by Parliament was crushed out, when the Combination Laws had made all their poor efforts illegal, driven all associations underground, and forced them into the position of secret societies, that the spirit of modern Trades Unionism may be said to have been born. The Acts were repealed in 1821, but there was still no real freedom. The unions had no position or status, and could always be got at on some pretext or other. Justices used their powers to restrict their functions as far as possible and always acted in an antagonistic sense. The savagery of some of the sentences passed on those innocent of any offence except consulting together how they might get their wages raised to a decent subsistence level, startled the whole country. It was most unfortunate that the Justices, no doubt acting sincerely under the influence of the panic we have alluded to, took this view of their duty. More than anything else it sowed the seeds of class hatred

Antagonism to the Unions.

and the irreconcilable attitude which still persists. It convinced many of the wage-earners that nothing could be gained except by war and revolution, and Chartism was one of the first fruits. The Chartist movement failed for various reasons that we cannot pause to go into here, but its social and political ideals survived, and eventually many of them triumphed. It was, however, not until the eighteen-seventies that the Trades Unions began to be freed by a series of great Acts, and their full and complete liberty and recognition was only achieved in our own century by the Acts of 1906 and 1913.

Unfortunate Consequences.

The methods that have been used by the Unions during this long struggle of over a century and a quarter, are four, and now one and now another has been in the ascendant. They are the methods of Voluntary Insurance, Collective Bargaining, State Legislation, and last but not least the Strike. They used these weapons very effectively. By voluntary mutual insurance they gave their members some protection against illness and accident and unemployment. By collective bargaining they held the scales more evenly between employer and employed, so that all the advantages were no longer on one side, as previously. Here came in the great principle that union is strength. One man alone, or even many isolated men struggling separately to raise their standard and get a better wage must obviously be helpless. The employer has time on his side—he can wait to bargain, but the labourer or artisan cannot, for he has nothing in reserve. He must sell his labour, even

Four Weapons of Trades Unionism.

on the most grinding and oppressive terms, or else expose himself and his family to starvation. The employer has usually education and skill in bargaining on his side—the worker as a rule has had neither. The employer has knowledge of markets, of foreign competition, of the state of the industry—all the cards, in fact, but the worker has not, and he cannot judge the truth or justice of the arguments which refuse his appeal and assert that his wage cannot be raised. They may be true and valid or they may not, he has no means of knowing. It is an unequal and impossible contest, which it is misuse of language to call a free contract. The plain fact is that you cannot have the free bargaining for which Adam Smith pleaded, unless you have some measure of equality between the bargainers. It is one of the cases where liberty and equality must go hand in hand. Otherwise, it has been well said, your boasted liberty is only the liberty to starve.

There can be no Liberty of Contract without some Equality between the Contractors.

The Union remedies these evils to a large extent. By its friendly insurance it gives the men time. They can afford to wait while their battle is being fought out. By collective bargaining it equalises the position of the two combatants. It says to its members: "You shall not accept any rate of remuneration below the rate fixed by the Union as necessary to maintain a fair standard of life," and it aims at including all the workers in a particular craft or industry in its ranks. To the extent that it does so the old position is obviously reversed. The employer can do without any

Collective Bargaining.

particular group of recalcitrant labour so long as he can replace it by other labour, but he cannot do without *all* the labour of his district. He must come to terms.

Now this is a great power, and obviously it is capable of being used or abused. We saw that a Trust may become an unbearable tyranny, intolerably oppressive to individuals, and the same is true of Trades Unions. If in their efforts to become all-inclusive and "blackleg-proof," as they call it, they are not satisfied with persuasion but use forcible pressure—if they forbid their members to work or live peaceably alongside non-union men, they are clearly claiming an uncontrolled monopoly which may be as dangerous as any other monopoly. If they fix the standard of life and the Union rate of wages too high—that is to say, higher than the Selling Price of the product makes possible—they are crippling industry, and may strangle it or drive it out altogether. If they preach a policy of restricting output, ca' canny, or sabotage (which means deliberately injuring plant and destroying some of the means of production), in their endeavour to remedy very real and poignant grievances, they are like Samson pulling down the pillars of the house! Their enemies may die, but they will certainly die with them, for industry cannot be destroyed without wholesale ruin to all concerned.

Danger of Misuse of Power.

So far, therefore, we notice of Trades Unions on the good side that they are *necessary* to maintain a standard of life, to prevent the intolerable evils of sweating, and to make the free contract really free and fair. Some control, whether by the State or the Unions, is clearly

Good Points of Trades Unions.

needed in the interests of the good employer as well as in that of the workers, that he may not be driven out by the unscrupulous competition of the Over-reacher and Sweater. Unions are *necessary*, too, as a means for communication and negotiation between employers and employed. Some recognised channel there must be, and authorised representatives who can speak for the men. The Unions thus make for the stability of agreements, and as this is of the first importance for security and industrial prosperity it is very much to be desired that their position in this respect should be strengthened, not weakened. Their central organisation and better knowledge, and responsibility for large funds also tend to lessen the danger of sporadic outbreaks of local sections of uncontrolled labour. But on the bad side we have to notice the *danger* of *tyranny* and *abuse of power*, both within their own ranks to their members, and outside to individual non-members, and also to the whole Community, whose life they may hold up by refusing to permit the supply of necessary labour on any possible terms.

Bad Points of Trades Unions.

Turning now to the other two methods, we find that there has always been internal disagreement as to the use of these. One party has relied on Parliamentary methods and State Legislation. The other has regarded this either as intrinsically hopeless, or as too slow to be of practical help, and it has based all its hopes accordingly on Direct Action and the weapon of the Strike. Both methods have, in fact, been largely used, and both have some victories

Parliamentary Action, and Strikes.

to their credit, as well as some defeats on the debit side, and some drawn battles. The interesting point brought out by the evidence is the power and influence of Public Opinion. The success or failure of a strike depends no doubt largely on good organisation and large funds, yet in the last resort it is not always decided by these, but by the general feeling of the community in backing or resisting it. An instance of this was the Match-workers' Strike at the end of the last century, which was successful in spite of a very weak organisation, largely as the result of keenly roused public sympathy. Again, in the Railway Strike of 1919 and the Coal Strike of 1921, which are still fresh in our memory, the influence of public opinion made itself very strongly felt, and undoubtedly influenced results. On the other hand, it may be said that the South Wales Miners' Strike in 1915 was an instance of success won in the teeth of public feeling. The position of the South Wales miners is, however, very unique, as they really have something very closely approaching a "natural monopoly" in their steam coal.

Power of Public Opinion.

It used to be thought that the whole social fabric would collapse before the Syndicalist threat of a General Strike, but this would now appear very doubtful. It must be remembered that a General Strike is very different from the ordinary industrial stoppage with which we are familiar. The latter is intended to remedy some grievance and obtain some improvement in conditions of work, or as to hours or wages. The General Strike, on the other hand, aims at a social revolution. It quite frankly does not desire to amend and improve

The General Strike.

the present Industrial System, but to render it unworkable, and establish on its ruins some form of Socialist society. Now, on such vast problems as are involved by a General Strike it is almost impossible to get a genuine solidarity of opinion even within Union ranks, or one may truly say even within the actual ranks of the would-be strikers themselves. Yet on such a solidarity, leading to consistent united action, the chances of success depend. Recently, too, the public have shown unsuspected powers of endurance, and of stepping into the breach and organising vital national services for themselves.

Need of an Instructed Public Opinion.

If the force of public opinion as an ultimate factor is once realised, then the duty of citizens to make themselves acquainted with industrial facts and to consider them impartially becomes clear. For in this way a useful and intelligent public opinion would be formed, which would in itself be a moderating and restraining influence.

The Strike a double-edged Weapon.

This does not mean that the strike is a negligible weapon, impotent either for good or evil. For good, because even though defeated on some particular issue it may yet call public attention to an unsatisfactory state of affairs and win reforms as an indirect consequence. And for evil, because whether defeated or victorious, it can seldom take place without inflicting incalculable loss and suffering on all concerned. It is a weapon, like political rebellion, which can never be ruled out in the last resort; but which wise men and nations use only in that last resort—that is when every form of public ventilation of wrong, and every

mode of conciliation and arbitration have been tried and have failed.

The Success of Strikes is the Shame of Statesmen.

The lamentable thing to reflect upon is the fact that Strikes should so often have been successful, and, as our later judgment declares, with right on their side. It is the condemnation of our statesmanship and of our practical ethics and religion, that, too often, righteous and necessary reforms have been yielded not to reason, nor in the name of justice or pity or brotherhood, but at the threat of violence. It has lent colour to the fatal belief that nothing can be won without force. And it is this deplorable fact which weakens our position and hampers us at every turn when we would preach the true gospel of reconciliation and peace.

Probable great Future before the Unions.

The dangers of Trades Unions cannot be guarded against by fighting their legitimate functions. More and more it seems that, when they have put their house in order, they are bound to play a great positive and constructive part in industry, as well as their old negative and defensive part. We cannot attempt here to go into the many perplexing problems that lie before them as to their own organisation and internal structure and discipline. There are urgent questions of Industrial *versus* Craft basis, demarcation disputes, and many others. Still less can we consider the interesting ideas of the National Guildsmen, which would involve drastic reconstruction of our Industrial System on lines of function and production for service instead of for profit. Here we are dealing with our system as it is, and as it might be modified and

improved. And it may be contended that Trades Unionism is a subject which should be treated of historically and politically, and which is out of place in an economic primer of this kind. Yet its bearing on the economic questions of Competition and Monopoly, as well as its vital importance in all matters of Wealth Production and Labour Unrest, seem to justify this chapter, which is necessarily the merest outline, intended only as an indication and not as a survey.

CHAPTER XXII

THE DUTY OF THE CONSUMER*

All through this book we have been dwelling on the problems of the Production of Wealth, and its Distribution. We have urged that each productive agent has its essential function, and can claim a right to a share of the wealth produced in so far as that function is fulfilled. Service and due reward for service go hand in hand. We have stressed the need for better and more willing co-operation if the production is to be effective; and the need for a fairer division of the product—a more equal sharing of all the goods and services which make the material side of life pleasant and efficient—if our present methods of distribution are to be made more acceptable and satisfactory to the public conscience.

The Consumer's Function.

And now, we ask, where does the Consumer come in? Has he any function to fulfil, beyond the apparent one of stimulating Industry by money payments? Or is he merely the passive recipient of all the treasures poured into his lap by the infinite effort and sacrifice of others?

* In all this chapter I follow closely and quote freely from Professor Urwick's *Luxury and the Waste of Life*, and Mr. Hartley Withers' *Poverty and Waste.*

Before we try to give the answer to this question there are two points to notice.

Changes in Position of the Consumer.

First, the Consumer is not in quite the same position as he occupied formerly. In the nineteenth century it might truly be said that he was the lord to whose desires the rest of society bowed down, and whose interest was recognised as the supreme consideration. Uncontrolled competition forced down prices for his advantage, supply waited humbly on his demand. To-day the rights of the Producer, often antagonistic to those of the Consumer, are better recognised. Collective bargaining and State control have regulated wages in the interests of all-round justice and racial efficiency, and refused to regard the Consumer as a privileged person whose sacred claims must not be scrutinised or interfered with. The power of any particular body of consumers in any one country or continent, is, moreover, not only reduced by deliberate organisations for protecting the producer, but also by the entrance on the scene of new competing consumers. World supplies are limited, and year by year new nations, becoming more civilised and developing new needs, enter the markets and demand their share, thus affecting prices. Where necessaries of life are concerned, such as corn, it seems that eventually some system of rationing and apportioning shares may become necessary, and the consumer's power to get whatever he demands will be still further lessened.

Second, we must notice the growing tendency for all Consumers to become Producers also, and this doubling of parts should tend to do away with the

spirit of antagonism, and produce more mutual sympathy and respect. It is a healthy tendency, marking the growing disapproval of the idler and slacker in whatever class he is found. Whatever the Laws of Inheritance may be at any particular time or in any given country, and however necessary it may be to allow accumulations of wealth and protect property, rather than cut at the roots of enterprise and production, yet it is more and more felt a discreditable thing to do no work simply because the labours of your fathers have enabled you to command the services of your fellows. The twentieth century ideal is that every man should pull his weight in the boat, and by some contribution, whether of hand or brain, put into the common stock at least as much as he draws out of it. He will only be a "profitable servant," a good citizen, if he puts in more.

His Duty to be a Producer also.

But when these two changes in fact and in ideal as affecting the Consumer have been fully considered, it will be seen that his position and privileges still remain unique. Shorn though he is of autocratic unconditional powers, still he is the ultimate master of production, for it is he who decides what shall be produced and how much of it. You may say, surely the Capitalist or the Enterpriser does this, for we said before that under our system they were free to produce what they would! But this freedom is, after all, only nominal. Their decisions are merely their estimates, their guesses at what the Consumer will require. If they guess wrong, or fail by advertisement and suggestion to make him

His unique Position.

The Master of Production.

alter his desires, they pay the penalty. For, when all is said and done, things are produced only to be consumed sooner or later. They have no other destiny or *raison d'être*.

Duty of the Consumer ?

We therefore turn again to the question of the *rôle* of the Consumer proper—not his duty to be a Producer also, but his duty simply as a Consumer. Does any duty attach to him in this capacity ? Can a man, in an economic sense, and apart from private morals, be said to be a good or a bad consumer ? Does it, in fact, looking at it simply from that point of view, make any difference how a man spends his money ?

The Ethics of Spending.

We touch here on controversial ground, and it would not be right to put forward matters of opinion, however weightily supported by able thinkers, as if they were on an equal footing with matters of established and universally accepted fact, such as many which we have discussed here. Nevertheless the question is of such vital importance that it ought not to be shirked.

The old View.

The old answer to the question was that it made no difference; that all spending was equally good for trade, equally good for the production of wealth, and for the poor. Whether a man spent on necessaries or luxuries, on good works or riotous living, made, no doubt, a difference in his private character, and was important from the point of view of philosophy, or religion, or social example, but economically speaking one was as good as another. The more spending the better—

economically the spender was a benefactor. For was he not demanding expensive commodities, and employing armies of labour to supply his desires, and what could be better—not, perhaps, in his own private interests, but from the public standpoint ? He was really helping the poor.

Is it true ?

It would be a delightful theory, easing many a troubled conscience, if only it were true. But, unfortunately, in our belief it is not true, but the very reverse of the truth. For the weight of evidence, unpalatable as it may be, seems to show that, as Mr. Hartley Withers has expressed it, every expenditure on luxuries stiffens the price of necessaries, and so makes the poor poorer.

The limited Wealth Heap.

For consider ; the whole available supply of Goods and Services—the Wealth Heap, as he graphically calls it, is necessarily limited at any given time, because the Labour and Raw Material and Capital which produce it are limited. We cannot get beyond these limits and say that absolutely more must be produced, but we can decide the composition of the Wealth Heap, and say that more of one thing shall be produced. It is a serious reflection that we, every spender among us are the final arbiters of what, for good or evil, sha be produced. For if we will have more of one clas of things produced for our satisfactions, and we admit that the Wealth Heap is limited, then it follow mathematically that there must be less of othe And in proportion to their reduced supply relative to demand, their price, as we saw in the instance of the butter market (see Chap. XIX), will infallibly tend to rise.

If production were unlimited, then, so far as social economics are concerned, we could consume the most extravagant luxuries without injuring any one, except perhaps ourselves. But once we have realised that this is not the case, then it follows clearly that if we insist on having roses in December and strawberries in March, we are using up for our luxurious gratification Capital and Labour that are urgently needed for the increased production of vital necessaries, houses, food, clothing, public works, etc. For, admittedly, the supply of all these things is insufficient to the demand.

Wasting Labour and Capital.

But, you will perhaps say, it is equal and more than equal to the "effective demand." Is there not already a glut of many of these useful commodities in the market, not because they are not wanted, but because the poor cannot afford to pay for them? This is a question of bad distribution of purchasing power, and how will it be helped by the rich abstaining from consuming luxuries which they *can* afford to pay for? Must not this cause *more* unemployment and hinder instead of helping? No, not in the long run, which is an argument we are always willing to use when it is a ase of some new method or machinery which temorarily causes distress, but eventually has good sults. And it is a valid argument, so long as it is recognised that temporary dislocation and distress must be met and provided for. The answer to the above difficulty is that abstention from luxuries will help in this way. Capital and Labour must be

Luxuries v. Necessities.

Bad Distri- ution of urchasing wer.

employed in some direction. If it is not made profitable for them to devote themselves to the production of luxuries, they will perforce turn to the production of necessaries. With increased supply the price for these will fall, and so the Real Wages of the workers will rise. In so far a better distribution of purchasing power will have been brought about.

How the Consumer can improve it.

It would be quite untrue to suggest that the rich or fairly well-to-do classes are the only offenders in this matter of luxury spending. It is not the prerogative of any class, and from the economic point of view the smallness of the income or the moral excuses that may be urged in defence make no difference. Often a working man's hard-earned and much-needed extra pound of wages goes on a gramophone, or a shoddy smart suit, or it may be in extra spirits at the nearest public. In each case his purchase stimulates the production of unnecessary or socially deplorable things and stints by so much the already insufficient supply of necessities.

Responsibility of all Classes of Consumers.

It is sometimes suggested that there are insufficient profitable openings for capital, and that what is wanted in the present stress of industrial difficulties and unemployment is more openings for it. Consequently that any discouragement of the luxury trades is to be deplored. But this argument seems to assume that necessaries and conventional luxuries as we may call them cannot supply these openings, and that unless Capital is encouraged to produce new luxuries and so stimulate new wants and new demands to absorb its supplies,

Openings for Capital.

it will, either of choice or necessity, remain idle. This is not probable. Capital always seeks to invest where it will find the biggest profit. If luxuries offer the biggest profit, which is not always the case, Capital will, no doubt, prefer to concentrate on luxuries, with some of the evil social consequences we have been noticing. But if it cannot get a high profit it will take a low one, unless, indeed, the rate of interest be reduced so low as to remove all incentive to saving. If it finds that the public demand more necessaries and fewer luxuries, it will adapt itself and meet that demand just as readily. It seems impossible to contend in the present state of things that the needs and simple amenities of a full and reasonable standard of life will not provide sufficient openings for Capital. If that state of things were ever reached, and the supply of necessaries were equal to the human demand for them, and, owing to social reform and better distribution, the economic demand were more or less coïncident with human demand, then we should altogether withdraw our protest against extravagant luxury expenditure from the economic point of view.

Capital seeks the biggest Profit.

Gide confirms this opinion, saying that it is not the amount of money spent which is the criterion of undesirable luxury, but the quantity of wealth or labour consumed in gratifying a want, *when it is needed elsewhere.* This is the crux; and he concludes that when societies are so rich (and, he might have added, so well organised) that they can and do secure all things needful to all their members, then no luxury will be economically wasteful or wrong.

When Luxury will be beyond Criticism!

Suppose now that a consumer is convinced by the above arguments that excessive spending on luxury is anti-social, and wishes to do his duty and improve matters. He will still be in great doubt and difficulty when he tries to decide what is "excessive" and what is "luxury." For these things are not absolute but relative. Relative to civilisation, to climate, to individual habit and social custom. Relative also to scarcity or abundance, and to the amount of the national dividend. We are not preaching asceticism. A certain amount of luxury is good, and probably a condition of material progress, for all new wants, when they are first satisfied, are of the nature of luxuries. Some property is essential, as Aristotle taught, to the leading of the "Good Life," to the expression and development of personality, and the argument could fairly include some spending on luxury, taking the word in the sense that everything is a luxury which is not *necessary* to well-being of mind and body. Voltaire's phrase, "le superflu, chose très-nécessaire," embodies paradoxically a real truth. The Consumer, anxious to fulfil his function well, will no doubt find that "wise spending" is no easy matter. But wherever he draws the line he will probably reduce his expenditure somewhat, and save part of his income. What will he do with this? and why is it better for the poorer citizens that he should have saved it rather than spent it? He can only give it away or invest it. If he gives wisely he will obviously be helping, but he may find that wise giving is no easier than wise spending, and that

Difficulty of Wise Spending.

What is Luxury?

Duty of Thrift. Why?

unwise giving does as much harm to the recipient, though not to himself.

Investment. More Capital helps Demand for Labour.

The alternative then is to invest it. But it may be said that investment as such is no better than spending as such; it is the object in each case which is the determining factor. And how is the consumer to invest wisely from the social point of view if he has no knowledge of investments himself, and no one to advise him as to a sound and useful field in which to sow his savings? He can leave them at the bank, secure that the money will not be idle. If he does not know how to use it his bankers do. More and more capital is needed, and the bigger the supply of it the more its market price, the rate of interest, will fall (see Chap. X).

Effect on Wages.

This will enable new industries to be started, and old ones to be extended, which, of course, implies a fresh demand for labour, and with this again wages will rise, and the purchasing power be again improved.

A permanent Service.

But the great superiority of Saving and Investment over Spending, even wise Spending, on Consumption Goods (over and above, of course, what is necessary for a reasonable standard of life), lies in the fact that it performs a *permanent* social service, and not only a *temporary* one.

All spending, we saw, stimulates production, and the man who spends on forced strawberries for his table, or on several motor cars for his private use, does give employment and does circulate wealth to that extent. But if the same amount had been

invested in, say, a mill or a farm or a factory, or a railway or shipping company, then not only would employment have been given to those building the mills or ships, etc., but these enterprises would *go on* earning, employing more labour and supplying the needs of the community When the strawberries are eaten there is an end of them. And the factory girl's silk stockings and the working boy's pathetic suit are hardly less ephemeral. But the Capital sunk in productive enterprises is not consumed and done with, for if a business is a sound one and properly managed, it will produce enough as it goes along to replace worn-out plant, and so perpetually renew itself. This is why Capital has been compared to the immortal Phœnix, apparently consumed, but rising again to a new life of usefulness.

All Spending is good for Employment, but not all equally good.

No fixed rules can be laid down as to a right personal expenditure of money. Prof. Urwick has suggested that the clue might be found in the principle of the "diminishing returns of satisfaction of wants," and that the test is the amount of value, of real satisfaction purchased. In the case of a large income where all urgent wants have long been satisfied, we all see that the expenditure of the last few pounds may buy very little satisfaction, something that would hardly be noticed or missed. In a small income the same amount might make all the difference between privation and ease, pain or well-being, perhaps even between life and death. That money is well spent which buys the greater satisfaction.

A Clue to right personal Expenditure.

These are matters which each individual must decide for him or herself. The point here urged is that a very real responsibility does rest with the Consumer. He can no longer take refuge in the old ignorance which asserted that how he spent his income was entirely his own affair and concerned no one else. It can and does affect the whole Community. And he cannot say that he owes the Community nothing, since without it he could neither earn his income nor enjoy it in security. The duty of the Consumer in actual practice is very far from an easy one, but to search his conscience and try to perform it worthily is the part of a good citizen.

Personal Responsibility of the Consumer.

CHAPTER XXIII

SOME ECONOMIC THEORIES AND SOCIAL REFORM

At one time it was the fashion to talk of rigid and inflexible "economic laws"; and now it is the fashion to deride and decry the very notion of the existence of such things. Both attitudes depend, as usual, on confusion of thought and inaccuracy in the use of language. People have been apt to confuse laws with theories; and economic theories, like many others, are generally evolved with reference to the special needs and circumstances of a time, and should always be considered in relation to them. Then they can be better understood and their value more justly appraised. Often they are constructed (not, indeed, with conscious insincerity) with the motive of providing a reasoned argument for some existing state of things which people believe desirable and wish to maintain. Often with a view to providing a rational basis for changes which facts or feelings imperatively demand.

Laws and Theories.

The emancipation of Labour and Capital from antiquated trammels of unsuitable legislation and stultifying State control was the great need of

Adam Smith's day, and it is reflected in his theories as to free contract and competition, and all the advantages that must inevitably flow from them. They were true theories, but not the whole truth, and even if they had been fairly and impartially applied all round, which was never the case, still much harm would have been done, and was done, when later economists, having twisted them to meet their own needs, called them laws instead of theories, and treated their authority as infallible.

Adam Smith's Theories.

A law, we know, in the scientific sense as distinguished from the legal sense, is not an authoritative decree backed by force, but only an observed sequence of facts. If a single fact will not fit in we conclude our supposed law was an erroneous theory, and we proceed to inquire further, or to restate the law so as to cover the new fact. It is this process which has thrown out of court many supposed economic laws, and people now fight shy of using the term.

Nevertheless, there are some economic *facts*, if we prefer to call them so, which cannot be got over or got rid of. They are as inevitable and unchangeable as mathematical facts. Such, for instance, is the undeniable axiom that more cannot be distributed than is produced, or the fact that a thing which is not wanted has no exchange value. These may seem platitudes, yet a lot of breath is wasted in controversy on public platforms because people do not remember them, or at least argue as if they were unimportant and could be ignored. On the other hand, there are no known

Economic Facts.

economic laws with regard to the *distribution* of wealth, beyond the common sense law that each agent of production must be maintained. The rest are only theories that more or less adequately express our experience, and as our experience changes they change also. For in this respect economic theories do differ from theories of natural science and mathematics. These latter deal with facts which, if only we can observe and record them accurately, are unchangeable—the same to-day and to-morrow. But economic theories deal with facts of human relations, which though they are conditioned and limited by natural science and mathematics, are nevertheless by their very nature changeable, and constantly changing.

Theories that deal with Human Relations are subject to Change.

Take the Iron Law of Wages, for instance, which was supposed to be a necessary deduction from Malthus' Laws of Population (see p. 27). It assumed that nothing could ever raise wages permanently above subsistence level. Higher wages, the argument ran, led to earlier marriages and larger families, and the consequent increased competition for work would always drag down wages again to the cost of bare maintenance of the workers. Nothing could alter this inexorable sequence! But history has not verified the theory, still less all the conclusions drawn from it. Increase and decrease of population are too big a subject to enter into here, but it may safely be said that higher wages and a higher standard of comfort have not led to the enlargement of families, but rather to their limitation.

Iron Law of Wages.

Then look at the Wages Fund Theory. It assumed that all industry was maintained out of Capital, of which at any time only a fixed supply existed, formed out of accumulations in the past, and only capable of being added to by further saving in the future. This was the Wages Fund. The theory further assumed that the fund was and must be divided into three parts or shares, one devoted to Plant, one to Raw Materials, and one to Labour. Now if wages are raised, and so according to the argument Labour gets more than its due share, less will obviously be left either for Plant or Raw Materials, and in either case it follows that less will be manufactured. This will lead to less employment, and again competition and the pressure of necessity will interfere to compel the reduction of wages. The share of Labour is therefore irrevocably fixed. If a Trades Union or a Government force up wages in one trade it can only be a temporary advantage given at the cost of others. If Labour as a whole tries to wrest a bigger share, not from Plant or Raw Materials, but from Profit, then no fresh accumulation of Capital will result, and again there must be less employment. According to this supposed law no permanent increase in wages was possible unless capital increased or population decreased, when the share of Labour would vary in proportion. This one way of escape from the dilemma was, however, barred by Malthus' Laws, as we have already seen. It is not surprising that Economics was known as "the dismal science," and that a writer discussing the evils which had followed the Industrial Revolution reckoned amongst the

Wages Fund Theory.

aggravations of them the theories of the Economists!

A more modern Theory of Wages is that they are not ultimately paid out of Capital at all. No doubt, as we saw (see Chap. VI), Circulating Capital is devoted among other things to the payment of wages, but this is only in the nature of an advance. Any business, whatever it may be, is producing with the idea and expectation that the product when marketed will cover all the costs of production and leave a surplus. Wages then are paid not out of Capital but out of Product, and can vary with the size of it. It would not indeed be true to say that they always vary exactly in proportion to the productivity of Labour, for other factors come in—the traditional standard of life in different trades, and the effect of a larger or smaller supply in the labour market. But obviously wages *can* rise higher, and as a matter of fact they do rise higher, where the productivity is high and the Wealth Heap large.

The Productivity Theory.

More and more modern opinion recognises what Mr. Rowntree calls the "human needs of Labour," and desires to interpret these in a liberal spirit; restricting the amount of the wage indeed only by the one necessary condition that the Selling Price * of the product must

The Human Needs of Labour.

* The Selling Price is not, of course, something fixed, independent of and unaffected by wages, but neither is it independent of demand and capable of being forced up indefinitely. (See Chap. XIII, Wages—I.) The different groups of producers bargain through the medium of selling prices for the joint product of industry. Within the limits of the price obtained the relative shares of the groups may be variously adjusted, but they cannot go beyond them.

be such as to enable the costs to be paid. In any Labour dispute both parties will as a rule do at least lip service, and in many cases give sincere agreement, to the principle that a fair standard wage must be the first charge on any healthy industry. Yet there is one social problem of the first magnitude in which this just principle seems to be lost sight of by many of the people who profess it, and that is the problem of Unemployment. So long as a fair wage is estimated as a matter of the weekly figure only, without regard to the number of days and weeks in the year when the worker, for no fault of his own, is kept waiting, unemployed and unpaid, it is impossible to say that Labour is genuinely made a first charge. A man's wages must be averaged over the whole year to know whether he is in fact getting a fair wage. And even this will not solve the difficulty of cyclical crises. (See Chap. XX.)

The Selling Price is the final Arbitrator of Wages.

Wages a First Charge. The Bearing of this on Unemployment.

The hydra-headed monster Unemployment, with all its hideous varieties, Seasonal Unemployment, Cyclical Unemployment, Casual Labour and Under-employment, with all the Unemployableness that is so often born of these, cannot be discussed here; but no one contends that the problem is yet solved, or denies that its continued existence is a danger and a dishonour to civilisation. Whether it can best be solved by each Industry bearing, to a much greater extent at least, the burden of its own unemployment as one of the costs of production, so making labour indeed a first charge; or by some kind of Central Fund, such as

Remedies for Unemployment.

Mr. Rowntree has suggested, provided by a percentage charge on the wages bill of all employers and on the weekly wages of all workers, supplemented by a Government Grant equivalent to what the State now contributes to Unemployment Insurance Benefit, or by some other scheme, is a matter for argument and opinion. But it seems that any system which fails to solve it and remove this reproach from our civilisation must assuredly be doomed.

Nothing worth having can be had without paying a price. The material goods that Economics concerns itself with are not the highest goods of life, but such as they are they are not won without hard work. Industrial Peace is indeed well worth having, and more than that, vital to our national prosperity, but it will not be achieved without an atmosphere of confidence founded on deeds not on words. To establish this atmosphere is one of the great tasks of the new generation of all classes.

Function and Reward for Service.

Mr. Tawney has eloquently pointed * out that the key to a healthy society is that it should be based on a recognition of function rather than of rights, and that reward should be in due proportion to service rendered. This raises many questions as to the right conditions of ownership of property which we cannot touch on within the scope of such a book as this. It is not our aim to take sides in controversies or advocate particular remedies, but to lead readers to study the facts for themselves and form their own conclusions.

The best and most informed opinion to-day, no matter to what school of thought it belongs, is united

* *The Acquisitive Society*, R. H. Tawney.

in the conviction that if our present system is to survive and keep in health and efficiency, many modifications and great changes are necessary and must inevitably come. No dream of absolute equality of income is possible, or indeed desirable from the point of view of either the philosopher or the economist. For it would not result in equality of satisfactions, nor probably even in a net gain, but rather in a net loss of satisfactions. It would mean waste therefore, and waste is the unpardonable economic sin. Many would be deprived of satisfactions that have become essential to their well-being, and many others would not know how to spend their new surplus to advantage. But a *far greater equality of income* than we see to-day is both possible and desirable, not only from the ethical but from the economic point of view. A better distribution of purchasing power would solve many economic difficulties, and Lord Bacon's pregnant saying might well be borne in mind: "Wealth is like muck—it is not good but if it be spread!"

Modern Thought.

Absolute Equality impossible, but less Inequality essential.

The Good Citizen, he who would have the opportunity of the Good Life for all, must desire greater equality of income for the sake not only of the poor, but of the rich. Rich and poor, it may well be, we must have always with us, but the tremendous inequalities of modern times are neither necessary nor wholesome. Squalid poverty, and disease, and demoralisation on the one side, and vast possessions without the corrective tonic of necessary work, and again demoralisation,

Symptoms of Disease.

on the other side, are symptoms of the sickness of our society. To sweep them off the face of the earth, even though it be, or seems to be, to our own hindrance and individual loss, is the only way of removing the surging Industrial Unrest which hampers the production of wealth at every turn.

Citizen Duty.

We started this book by saying that in studying Social Economics it was the duty of a citizen, if he found that all was not well with our Community in this important matter of the Production and Distribution and Consumption of Wealth, to inquire into the causes, and see what remedies are possible. And we have found in the working of our Industrial System much that we cannot but admire, a marvellous machine for satisfying the wants of the world, but also much waste and much injustice. It matters little what our politics are—there are noble and wise men in every party—but there is no way of redressing old evils without willingness to sacrifice. We may truly say we did not make the evils, and either suffer from them or profit by them involuntarily; but they are part of our social heritage, and it is up to us to reckon with them and deal with them. It is idle to talk of desiring social reform if we are not anxious and willing for work and sacrifice. We must be ready to pull our weight in the boat, and to welcome a much greater equality of wealth—a better sharing of all the Goods and Services which all alike must co-operate to produce. The day of drones is over.

The Will to Work, and to Sacrifice.

And it is surely common sense as well as justice to achieve this better sharing, if we still may, by

consent and social reform, rather than by violence and revolution. Our generation should have learnt one thing at least—that in a war, whoever wins, both sides destroy values that represent incalculable human effort and sacrifice in the past, and hope for the future; and that even triumphant victors may emerge economically crippled, if not destroyed.

The Lesson of the War.

Goodwill, knowledge of facts, and common sense are what the world wants, in political and economic relations, both at home and abroad. Without these there can only be waste and ruin ahead of us, but with them we may yet achieve, through Work, not only the Wealth but the Well-being of Nations.

The Need for a new Spirit.

What is needed above all is a change of spirit. For spirit is a greater thing, and a more potent influence in the growth of nations, than any economic fact. We need vision to discern the signs of the times, for we know that whom the gods will destroy they first make blind! Any system may become a prison; any principles, even good ones, if wrongly applied, with regard only to the rigid letter, may lead to tragedy, for the letter kills. But the spirit gives life. And on the spirit working in the hearts of men and women depends the future of our civilisation, whether it shall be salved or perish.

APPENDIX

SUGGESTED SUBJECTS FOR DISCUSSION AND CLASS DEBATE AND FOR ESSAY WRITING

Wealth and Value

1. Discuss the nature of Wealth, what it is and is not. Would the services which a prime minister renders to his country be part of the national wealth ? or would the salary paid him be the wealth ?

Consider the same question with regard to, say, a baker. Is it his service or his pay which is the wealth ? Distinguish between the individual and national points of view.

2. Might air ever conceivably be a form of economic wealth ? Consider this in reference to fashionable seaside resorts and health spots.

3. Would Free Trade or a system of Tariffs for Protection be most conducive to the creation of Wealth ? Distinguish carefully between political and economic arguments for either of these policies. Certain things, war for instance, may be politically essential if certain policies are followed, yet economically disastrous. Illustrate this. Consider whether Britain could ever be self-supporting.

4. Is it ever wise to import articles which we can produce ourselves ? and if so, why ? Is it ever wise to import articles which we can actually produce cheaper ourselves ? Give your reasons. Consider the case of Danish and home dairy produce, and the English coal and steel and cotton industries, and their relative values.

Factors of Production.

5. Consider the relative importance of the three factors in the following industries: a farming company, a railway company, and a publishing company.

6. In deciding whether to treat Labour and Management as two separate factors, or as two branches of the same, is it true that there is nothing in names and the question therefore unimportant? Consider as instances in point: Flunkey or footman; reproduction or imitation of old furniture; a general domestic servant or a slavey; a barrister or an attorney; a factory "hand" or "worker."

7. Trace how the geographical position of a country may affect national wealth and occupation. Consider the position of England, and specially of London, from this point of view. Note effect of climate and occupation on character.

8. Consider the Law of Increasing Returns and the Law of Diminishing Returns. Take as an instance of the first the case of the publication of a book, and larger or smaller editions; and as an instance of the second the case of an ocean liner, the number of knots it can make per hour in proportion to the number of tons of coal used.

9. Is a dentist a productive labourer? and if so, why? Consider that what is produced need not be material wealth, but may be utilities or amenities either tangible or intangible.

10. Take any instance of Division of Labour within your own experience, rolling a cricket pitch or home jam-making, for instance, and show how it saves labour and hastens dispatch of work. Consider whether the sort of Division you are thinking of is nearer akin to the division of crafts or to the subdivision you would find in any modern factory. Weigh the advantages and disadvantages of the latter.

11. If a spendthrift borrows capital on his expectations, and instead of using it productively simply wastes it, whose labour provides the interest paid to the money-lender?

12. How was the surplus wealth which is used as Productive Capital accumulated? Would it have been possible without great inequality in the distribution of Wealth? And if not, how would you propose to provide this necessary agent of production if incomes were equalised more or less, and private ownership of capital were abolished? Consider possible public saving instead of private.

13. Suppose you were starting a small business, say a shop, with no capital or insufficient capital of your own. How would you set about it? and what would your outgoing expenses be before you could make any profit for yourself? Consider that you must pay rent and rates for your premises, keep them in repair, warm and light them, buy your stock, and pay interest on the borrowed capital which enables you to do all this. If you have put your own savings into the business, will you pay yourself interest on them before you begin to reckon profit? and if so, why? If you hire no labour, but do all the work yourself, will you pay yourself wages before reckoning profit? Give your reasons.

14. Consider the suitability or otherwise of certain industries for the State to take over. Suggested instance, women's hats.

Rent.

15. Discuss whether Rent is (1) necessary, and (2) equitable? and give your reasons.

16. Distinguish between true economic "Differential Rent," and "Scarcity Rent," and "Rent of Ability." In connection with the latter consider the different fees charged by different surgeons for the same operation, or the prices charged for theatre seats when the French Players come over for a limited season. Is this the price

of a difference of ability, or a monopoly rent based on scarcity, or on fashion ?

Interest

17. Consider the various theories of Interest, and discuss which you consider the most satisfactory, and why ?

18. Compare the historic ancient prejudice against interest, " usury," with the later feeling against the use of cards for gambling purposes. Consider whether it is not due in both cases to the fear of excess supposed to be inseparable from them, and the recognition that excessive interest and excessive gambling are obviously socially injurious.

Profit

19. Is Profit the just reward of Enterprise, or is it the unjust Exploitation of the worker, as Marx held ?

20. Compare Karl Marx's theory that all Value is due to Labour, with the theory that Value is determined by Demand and by the Costs of Production, *i.e.* two causes of Value, not one.

21. Is there any good reason why the whole surplus profit should go to any one agent of production ? Each alike claims to be the residuary legatee, so to speak, and the matter is usually settled by a tug-of-war. Consider that the trend of modern opinion is that profits should be shared by all who contribute to production.

Wages

22. Consider what is meant by such phrases as " A Just Wage " and " the Human Needs of Labour," and the difference in public conscience implied by such phrases compared with the old " Labour is a Commodity like any other commodity."

23. Are there any natural and impassable limits to rises of wages ? or can the selling price of the product always be raised proportionately to meet them ? Distinguish between Real and Nominal Wages.

24. Discuss different methods of Wage Payment, and compare some of the advantages and disadvantages of Time-Rate and Piece-Rate.

Money.

25. If Wealth is independent of Money, and Money only a token or symbol of Wealth, why is money so important? Consider how exchange creates fresh values, and how the use of the instrument money facilitates exchange.

26. Trace the passage from coin to paper money, and show how confidence is the basis of credit and of all commercial and industrial expansion.

27. Is our coinage entirely satisfactory? or is there a disadvantage in being without any smaller subdivisions of value, such as other countries possess? We have nothing between a penny and a halfpenny. Consider how this affects the consumer. Take the case of taxation on beer or tobacco. When the tax is raised so much per barrel or gallon or ounce, note how, owing to the absence of coins of low value, the retail price tends to be put up quite disproportionately. This puts not only revenue into the Treasury as intended, but an unintended additional profit into the producer's pocket.

28. Show how the "velocity" of money used for certain purposes is greater than if used for others. Take the case of wages and consider what they are spent on. Will not the velocity or efficiency of money distributed in wages be greater than that distributed in dividends? And would not a better distribution of purchasing power, therefore, affect the efficiency of money favourably?

29. Explain how the great inflation of money during the war, *i.e.* the issue of large numbers of unconvertible notes, affected prices, and raised the cost of living.

Taxation

30. Our view of Taxation depends on our view of the right functions of the State, and on the nature of the State, whether it is autocratic or really representative of all citizens. Discuss this.

31. Consider whether any money we spend privately is as a rule better spent than what we pay in taxes and rates for public services.

32. Discuss the view that Taxes are the share due to the State as a co-operative agent of production, just as Rent is the share due to Land, or Wages to Labour, etc.

33. Compare the merits and drawbacks of Direct and Indirect Taxation, and consider how far our system satisfies the tests of a good system of Taxation, specially noticing changes made in recent years as to "sliding scale," "earned and unearned income," super-tax, death-duties, etc. Show how all these harmonise with the idea of a greater equality of sacrifice.

Competition and Monopoly

34. Distinguish between Competition as a natural, healthy rivalry and an unscrupulous over-reaching; competition in merit and service and fair enterprise, and competition in sharp practice and cheating.

35. When Exploitation is talked of remember that there may be exploitation of Labour, or exploitation of the Consumer. Discuss any instances of this that you have known or heard of.

36. Show how Combinations tending to monopoly are sometimes inevitable, and tend to the advantage of both Labour and Capital and the Public. Notice the dangers that attend them and have to be carefully guarded against.

37. Is our present industrial system one of free, unrestricted Competition, or not? Give reasons for your views, and illustrate from any facts known to you.

38. How has legislation in practice modified the theory of free competition?

39. Discuss the weak points of a system of *laissez-faire* when put into practice. Also discuss the weak points of too much State interference with industry.

40. Notice the danger of tyranny and ultra-conservatism inherent in all vested interests, monopolies and close corporations. Illustrate by reference to the Bar, Medicine, and Trades Unionism.

41. Discuss some of the merits and demerits of Trades Unions, noting the necessity for them to prevent great evils, and at the same time their dangers.

42. Consider the interests of Consumers *v.* Producers. Everybody is a consumer—that is the larger unity. On the other hand everybody is *either* a labourer in the wide sense, *or* a share-holder. (Many people are, of course, both.) These are smaller unities. The larger unity should be the predominant consideration, though not to the extent of over-riding the just claims of the smaller unities, as in the past. But the difficulty is to rouse interest, and consequently effective combination, in behalf of the large unity of consumers. The link is too loose. An analogy may be found in the School and the House, a more personal interest being often, though not always, felt in House matches than in School contests. In the same way it is easier to get up enthusiastic action in defence of a small group, say a professional association or a Trades Union, than in defence of the rights of the whole body of citizens. Consider whether this is not a serious danger, leading to the spirit of Section not of Community. What remedies would you suggest?

Social Reform

43. Why is the figure of the weekly wage a very insufficient guide to knowing how well or how badly off a family is? What other factors must be known to ascertain even approximately its real economic position?

44. Does the present Capitalistic System work smoothly and satisfactorily on the whole? Consider this in the light of Strikes, Lock-Outs, Ca' Canny, and Unemployment.

45. If change is necessary, discuss the advantages of reform rather than revolution. Consider the possibilities of establishing confidence and content by a really co-operative system—not merely Profit-Sharing, but Co-Partnership—a Joint Control by Capital and Labour.

46. It is sometimes argued that Labour is in the position of the debenture-holder, and cannot claim a share in the control of industry because it does not share the risk and the losses in case of bad management—its wages must be paid whether the business is successful or otherwise. Consider whether this is in practice true, since if the management is bad and the business fails, wholesale loss and ruin may, and often do, fall on the Labour employed, in the form of unemployment.

47. Discuss the proposition that all social reform is the result of change of opinion and growth of public conscience, and consider the special importance to a democracy of wise and liberal education. In view of this weigh the question whether retrenchments in general education are not the most short-sighted and uneconomic of all so-called economies!

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